VILLAGE OWNED ENTERPRISES AND COMMUNITY WELFARE: THE MODERATING ROLE OF SOCIAL CAPITAL IN RURAL INDONESIA

EMPRESAS DE PROPRIEDADE MUNICIPAL E BEM-ESTAR COMUNITÁRIO: O PAPEL MODERADOR DO CAPITAL SOCIAL NA INDONÉSIA RURAL

Ida Bagus Made Agung Dwijatenaya*
*Kutai Kartanegara University, Tenggarong, East Kalimantan, Indonesia
Orcid: https://orcid.org/0000-0002-8190-1630
tenaya@unikarta.ac.id (Corresponding author)

Yonathan Palinggi*
*Kutai Kartanegara University, Tenggarong, East Kalimantan, Indonesia
Orcid: https://orcid.org/0000-0003-2585-9009
yonathan_palinggi@unikarta.ac.id

Astik Drianti*
*Kutai Kartanegara University, Tenggarong, East Kalimantan, Indonesia
Orcid: https://orcid.org/0000-0001-5731-2919
astikdrianti@unikarta.ac.id

Musmuliadi*
*Kutai Kartanegara University, Tenggarong, East Kalimantan, Indonesia
Orcid: https://orcid.org/0009-0000-5607-2722
musmuliadi@unikarta.ac.id

Syahrani*
*Kutai Kartanegara University, Tenggarong, East Kalimantan, Indonesia
Orcid: https://orcid.org/0009-0005-4992-4719
syahrani@unikarta.ac.id

Abstract

This study intends to analyze the impact of Village-Owned Enterprise empowerment on community welfare and to investigate the moderating function of social capital in the relationship between Village-Owned Enterprise empowerment empowerment and community welfare. The study was carried out in Kutai Kartanegara Regency, Indonesia, concentrating on active Village-Owned Enterprises. The research involved 107 participants. A quantitative study design was utilized, employing an inferential statistical method with SmartPLS. The results indicate that the empowerment of Village-Owned Enterprise empowerment positively and significantly impacts the enhancement of community welfare. The study indicates that social capital acts as a positive moderating variable in the link between Village-Owned Enterprise empowerment s

Resumo

Este estudo pretende analisar o impacto do empoderamento das Empresas de Propriedade da Vila no bem-estar da comunidade e investigar a função moderadora do capital social na relação entre o empoderamento das Empresas de Propriedade da Vila e o bem-estar da comunidade. O estudo foi realizado na Regência de Kutai Kartanegara, Indonésia, com foco em Empresas de Propriedade da Vila ativas. A pesquisa envolveu 107 participantes. Foi utilizado um delineamento de estudo quantitativo, empregando um método estatístico inferencial com o SmartPLS. Os resultados indicam que o empoderamento das Empresas de Propriedade da Vila impacta positiva e significativamente a melhoria do bem-estar da comunidade. O estudo indica que o capital social atua como uma variável moderadora positiva na relação entre o empoderamento das Empresas de

empowerment and community welfare, however this moderating effect lacked statistical significance. This study has specific limitations, as it did not account for external variables that may affect community welfare, like government policies and macroeconomic issues. Additional research is advised to investigate the correlation between empowerment and community welfare, as well as the association between social capital and community welfare, within a wider framework. Research encompassing numerous places with distinct characteristics and utilizing more objective and extensive assessment techniques will result in a better understanding of the interactions among many elements influencing community welfare.

Keywords: Community Welfare. Empowerment. Social Capital. Village Owned Enterprises. Local Wisdom. Mutual Cooperation.

Propriedade da Vila e o bem-estar da comunidade; no entanto, esse efeito moderador não apresentou significância estatística. Este estudo apresenta limitações específicas, pois não considerou variáveis externas que podem afetar o bem-estar da comunidade, como políticas governamentais e questões macroeconômicas. Recomenda-se pesquisa adicional para investigar a correlação entre empoderamento e bem-estar comunitário, bem como a associação entre capital social e bem-estar comunitário, dentro de um contexto mais amplo. Pesquisas que abranjam diversos locais com características distintas e utilizem técnicas de avaliação mais objetivas e abrangentes resultarão em uma melhor compreensão das interações entre os muitos elementos que influenciam o bem-estar comunitário.

Palavras-chave: *Bem-estar Comunitário. Empoderamento. Capital Social. Empresas Locais. Sabedoria Local. Cooperação Mútua.*

1 INTRODUCTION

The foremost objective of growth in every nation is the welfare of the community. Indonesia, being a developing country, consistently endeavours to enhance the welfare of its population through various programs and policies addressing social and economic challenges. (Nicholson, 2002) argues that societal welfare serves as a metric for a nation's successful development. Public revenue and quality of life are the primary indications of such advancement.

According to data from Statistics Indonesia (*BPS*), the poverty rate in Indonesia decreased from 9.22% in 2020 to 8.38% in 2022. The decrease signifies changes in individuals' daily lives that extend beyond mere statistical data. Despite the substantial progress made in reducing poverty levels, there are still a number of obstacles that must be overcome to achieve a more equitable welfare system. Regional differences in development continue to pose significant concerns. Indonesia, comprising numerous islands and a variety of ethnic groups, cultures, and physical conditions, encounters substantial challenges in providing equitable access to resources and services. Furthermore, it is essential to acknowledge the involvement of the private sector and local communities, particularly the contributions of Village-Owned Enterprises (*BUMDes*). Cooperation among the government, corporate sector, and non-governmental groups has

become increasingly essential for achieving inclusive and sustainable development. A solid synergy among these three components can stimulate innovation in service delivery and local economic development, ultimately improving overall community welfare. Village-Owned firms are essential for reinforcing local economies through the management of village resources and the establishment of business enterprises that enhance community income. Community engagement in development is essential, as individuals hold significant local knowledge and skills that may be used in the decision-making process. Moreover, communities possess social capital that can be leveraged to enhance societal well-being. Empirical evidence demonstrating that social and cultural determinants most notably social capital significantly affect well-being highlights the necessity of adopting a holistic framework for advancing community welfare. Social capital, comprising social networks, trust, and shared norms, facilitates mutual support and collective action, thereby enhancing the overall quality of life within communities (Usman, 2018). Moreover, a more nuanced understanding of the interplay between social capital, community well-being, and the empowerment of Village-Owned Enterprises is essential for formulating evidence-based and context-sensitive policy interventions.

While a substantial body of literature has established the correlation between social capital and well-being, several dimensions remain underexplored, particularly with regard to the role of social capital as a moderating mechanism in the relationship between empowerment initiatives and community welfare. For example, (Yuliarmi et al., 2020) examined the influence of social capital within urban cooperatives but afforded limited attention to the distinctive contextual factors of rural settings that may alter these dynamics. Building upon this gap, the present study aims to investigate how social capital may function as either a moderating or mediating variable in shaping the relationship between the empowerment and integration of Village-Owned Enterprises or the well-being of rural communities.

2 LITERATURE REVIEW, CONCEPTUAL FRAMEWORK, AND RESEARCH HYPOTHESES

2.1 Community welfare

The efficacy of national development is frequently assessed by the degree of welfare attained by its populace. While increasing income is essential, true welfare includes a wider range of factors, such as access to healthcare, education, political stability, and inclusive governance. Governments must nurture ecosystems that comprehensively support community welfare by integrating varied elements, thereby promoting sustained enhancements in citizens' quality of life. A nation is seen successful in its development when welfare improvements coincide with income growth, especially when such growth leads to greater access to basic services and enhanced living standards (Nicholson, 2002). Empirical research substantiates the affirmative correlation between income and welfare (Manasseh et al., 2019; Gu & Wei, 2018). Economic metrics, including household expenditure, consumer surplus, income, and Gross Domestic Product (GDP), are crucial proxies for assessing community welfare (Pakpahan, 2021). Investigations into the relationship between GDP and welfare have yielded persuasive evidence, as illustrated in the studies of (Utami & Indrajaya, 2019), (Mulia & Putri, 2022), (Wiriana & Kartika, 2020), and (Bustamam et al., 2021).

The welfare of the community is inherently connected to individual welfare. It can be defined as a condition in which persons' fundamental needs are sufficiently met, especially regarding basic essentials like food, clothes, shelter, education, and healthcare. In this framework, welfare constitutes a primary aim of developmental initiatives (Suharto, 2006). The Republic of Indonesia Law No. 11 of 2009 delineates social welfare as the satisfaction of people' material, spiritual, and social requirements, facilitating a dignified existence, the development of their potential, and the effective execution of their social tasks (Indonesia, 2009).

The evaluation of welfare requires a multidimensional framework. Key dimensions encompass material living standards (income, consumption, and wealth), health, education, individual activities such as employment, political representation and governance, social networks and relationships, environmental quality (both current and future), and economic and physical security. These aspects collectively offer a

comprehensive view of quality of life, incorporating both objective and subjective measures (Stiglitz et al., 2011). The 2023 report from Statistics Indonesia (BPS) identifies eight principal indicators for evaluating community welfare: demography, health and nutrition, education, employment, consumption levels and patterns, housing, poverty, and additional social dimensions (Development, 2023). The relationship among education, health, and welfare is further corroborated by several studies ((Andrade et al., 2018); (Ferreira & Monteiro, 2019); (Fadhli & Fahimah, 2021); (Isralowitz et al., 2022)).

Numerous factors affect the welfare of individuals and societies. Attaining welfare, both financial and immaterial, necessitates individuals to fully exploit their potential in economic and social domains. When efficiently harnessed, social capital can substantially bolster collective capacities to improve welfare; conversely, its underutilization might hinder these efforts. Empirical research confirms the substantial and beneficial influence of social capital on welfare (Gandhiadi et al., 2018); (Yuliarmi et al., 2020); (Muringani & Fitjar, 2021). Furthermore, both individual and organizational capabilities significantly influence welfare outcomes. These capacities, frequently characterized as empowerment, denote the processes via which individuals and communities cultivate the competencies and capabilities necessary to function as proactive agents of development. Enhancing quality of life and community welfare thus emerges as the cumulative outcome of empowerment processes that are participatory, inclusive, and oriented toward strengthening communities as critical developmental resources (Adi, 2008).

2.2 Empowerment of village-owned enterprises

The Government of Indonesia has instituted numerous empowerment projects to enhance community welfare. There are four strategic initiatives to increase welfare: extending opportunities, empowering communities, improving capacities, and providing social security (Wrihatnolo & Dwidjowijoto, 2007). Community empowerment seeks to strengthen the national economic framework, particularly by boosting small and medium enterprises, especially Village-Owned Enterprises (Prawirokusumo, 2001). These programs engage both governmental and non-governmental entities, with various types of empowerment enhancing one another to establish a synergistic approach to better community welfare (Adi, 2008).

Community empowerment can be analyzed through three interconnected dimensions. The first aspect is facilitating, which entails cultivating awareness of dormant potential, inspiring individuals, and establishing situations conducive to the development of that potential. The second dimension, empowering, extends beyond fostering a conducive environment by providing tangible inputs and access to resources and opportunities. This includes improving education and health levels, expanding access to information and technology, developing physical infrastructure, and offering training programs that enhance individual and collective capacity. The third dimension, protecting, emphasizes safeguarding vulnerable groups from further marginalization, ensuring that empowerment efforts do not inadvertently exacerbate existing inequalities.

Empowerment, therefore, is best understood as a dynamic and continuous process rather than an instant transformation. As a process, it typically unfolds across three stages: awareness building, capacity enhancement, and strengthening of agency (Wrihatnolo & Dwidjowijoto, 2007). Muhammad Yunus, Nobel laureate and founder of Grameen Bank, conceptualizes economic empowerment as a transformative process that improves individual quality of life by enabling the exploration and application of creative potential (Yunus, 2008). Within this framework, the empowerment of Village-Owned Enterprises can be seen as a form of economic empowerment at the community level.

Empirical studies demonstrate that the empowerment of Village-Owned Enterprises exerts a positive and significant impact on community welfare ((Fathony et al., 2019); (Parida & Setiamandani, 2019); (Wardani & Utami, 2020); (Ningrum et al., 2021); (Suryawan & Utama, 2021); (Muhammad Yunus & Parapat, 2021); (Hamisi et al., 2023)). Conversely, other studies suggest that such empowerment does not always yield significant welfare improvements, highlighting the need to examine contextual and implementation factors that may influence these outcomes ((Maulana et al., 2021); (Wibisono et al., 2021)).

2.3 Social capital

Social capital is an essential element of community empowerment, representing the collective capacity of individuals or groups to cooperate in attaining common objectives. Putnam posits that social capital consists of two fundamental components: trust, which embodies positive ideals that promote individual and communal

advancement, and social assets, including norms, shared beliefs, and social networks that enable cooperation. In this context, social capital refers not to financial resources but to the intangible basis that supports robust social interactions and reciprocal assistance.Fukuyama further defines social capital as consisting of three interrelated components: trust, values and standards, and networks. These aspects constitute a unified social environment that bolsters and sustains community empowerment initiatives (Usman, 2018).

Empirical evidence continually highlights the substantial impact of social capital on community well-being. Communities possessing elevated social capital are more adept at utilizing established networks, norms, and relationships to attain economic and social goals ((Arum et al., 2023); (Laksmi & Arjawa, 2023)). Additionally, social capital frequently functions as a moderating variable, enhancing the impact of empowerment programs on welfare outcomes (Yuliarmi et al., 2020). In these instances, social capital serves as a channel, guaranteeing that the advantages of empowerment are optimized and widely disseminated throughout the society.

Nonetheless, studies investigating the mediating function of social capital in the association between empowerment and wellbeing are scarce. This study examines how social capital mediates and amplifies the effects of empowerment efforts, namely those related to Village-Owned Enterprises, on community wellbeing. This comprehension is crucial for formulating more effective empowerment programs that incorporate social capital as a catalyst for sustainable and inclusive development results.

2.4 Village-owned enterprises

Indonesia is a country rich in cultural and ethnic diversity, with each region representing distinct and significant local expertise. In Kutai Kartanegara Regency, East Kalimantan Province, this indigenous wisdom is embodied in the notion of *betulungan etam bisa* a profound cultural value that underscores communal cooperation. Far exceeding a conventional practice, *betulungan etam bisa* signify a substantial social asset that may be utilized to enhance community welfare. This value cultivates social capital by promoting collective action, allowing communities to interact, assist one other, and effectively pursue common goals.

Village-Owned Enterprises are essential in the administration and enhancement of local resources. Village-Owned Enterprises are legally recognized entities created by villages to manage economic initiatives and leverage available assets for the benefit of local communities. Government Regulation No. 11 of 2021 delineates the principal aims of Village-Owned Enterprises as fostering investment, augmenting production, and delivering basic services to improve the welfare of rural populations. Village-Owned Enterprises function as strategic tools for promoting rural economic development and enhancing livelihood chances. In contrast to the village administration, Village-Owned Enterprises function with a level of freedom and entrepreneurial focus, enabling them to innovate in the management and development of their enterprises. A Village-Owned Enterprises in Kutai Kartanegara has effectively developed organic agriculture, satisfying local need and investigating export opportunities. By utilizing local knowledge and natural resources, Village-Owned Enterprises enhances household income and generates employment possibilities, therefore promoting inclusive and sustainable economic growth in rural communities.

2.5 Research conceptual framework

This study, based on the theoretical underpinnings of welfare, Village-Owned Enterprises empowerment, and social capital, presents a conceptual framework that delineates the interactions among the fundamental variables (Figure 1). The theory asserts that the empowerment of Village-Owned Enterprises directly affects community welfare, with social capital serving as a moderating element that enhances this link. This study includes three latent variables: social capital (X) as the moderating variable, empowerment (Y1), and community welfare (Y2). Community welfare (Y2) is measured using measures including household income (Y21), asset ownership (Y22), family education level (Y23), family health status (Y24), and Social Relationship (Y25). The empowerment of Village-Owned Enterprises (Y1) is assessed through indicators such as awareness of Village-Owned Enterprises significance (Y11), motivation for the implementation of integrated Village-Owned Enterprises systems to boost productivity (Y12), guidance for Village-Owned Enterprises in planning integration (Y13), training for the execution of integration (Y14), and the fort Village-Owned Enterprises ification of Village-Owned Enterprises integration across all economic sectors within the village

via its business units (Y15). Social capital (X) is evaluated through indicators including community trust in managing Village-Owned Enterprises (X1), collaborative efforts to maintain Village-Owned Enterprises (X2), consensus-driven decision-making (X3), and compliance with local customs of mutual assistance (*betulungan etam bisa*) to guarantee Village-Owned Enterprises sustainability (X4).

The primary aims of this research are twofold, they are; (1) to evaluate the impact of Village-Owned Enterprises empowerment on community well-being, and (2) to investigate the moderating influence of social capital on enhancing the effect of Village-Owned Enterprises empowerment on community welfare.

## 2.6 Research hypothesis

According to the proposed conceptual framework, the subsequent hypotheses are established:

1) The empowerment of Village-Owned Enterprises positively and significantly enhances community welfare.
2) Social capital considerably moderates and enhances the correlation between Village-Owned Enterprises empowerment and community welfare.

Figure 1

Conceptual Framework
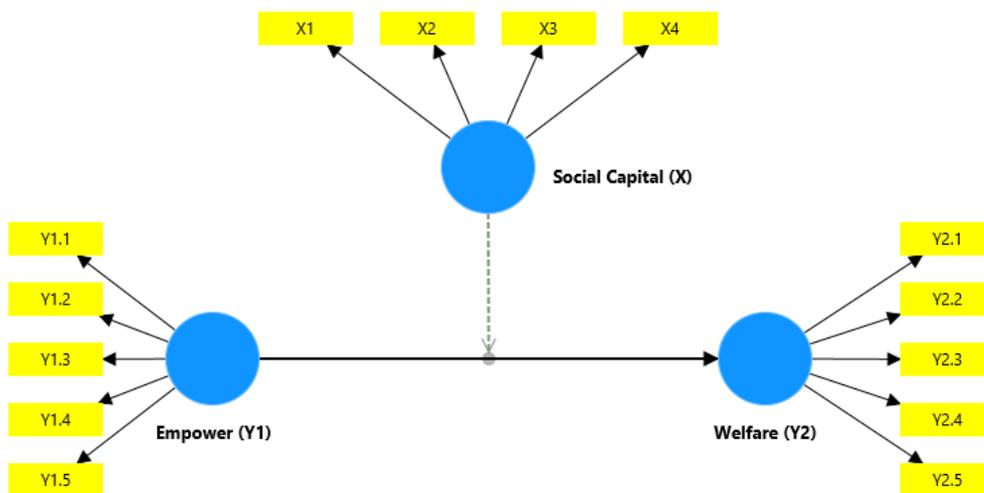
3 RESEARCH METHODOLOGY

3.1 Research designed

This study employs a quantitative research design (Kerlinger, 2006) to examine the relationship between Village-Owned Enterprises empowerment, social capital, and community welfare. The research was conducted in Kutai Kartanegara Regency, East Kalimantan, Indonesia, encompassing Village-Owned Enterprises located in the sub-districts of Loa Kulu, Tenggarong Seberang, Muara Kaman, Marangkayu, Sebulu, and Kota Bangun.

A purposive sampling method was applied to ensure the selection of respondents with substantial knowledge and involvement in Village-Owned Enterprises operations. The sample comprised 107 respondents, including village heads, Village-Owned Enterprises managers, community leaders, and religious figures, who are considered key stakeholders in Village-Owned Enterprises development and management. This approach ensured that the data collected accurately represented informed perspectives on the empowerment processes and their influence on community welfare.

3.2 Questionnaires

Primary data were collected using a structured questionnaire administered through face-to-face interviews with 107 selected respondents, comprising village heads, Village-Owned Enterprises managers, community leaders, and religious figures. The questionnaire comprised two sections: the first delineated respondents' demographic attributes (see Table 1), while the second assessed indicators for the three principal latent variables: community welfare, social capital, and Village-Owned Enterprises empowerment.

Table 1

Description of respondent characteristics

Demographics	Frequency (f)	Percent (%)
Age		
25-34 years	24	22,4
35-44 years	42	39,3
45-54 years	36	33,6
55-64 years	5	4,7
Total	107	100
Gender		
Male	11	10,3
Female	96	89,7
Total	107	100
Education		
Senior High School	81	75,7
Bachelor's degree	26	24,3
Total	107	100

Source: Data Analysis (2025)

Table 2

Variable Description

No.	Variabel	Indicator		1	2	3	4	5	Total
1	Social Capital(X)	Trust (X1)	f	0	0	0	32	75	107
			%	0	0	0	30	70	100
		Sustainable Collaboration in *BUMDes* (X2)	f	0	0	0	66	41	107
			%	0	0	0	62	38	100
		Consensus-Based Decision Making (X3)	f	0	0	0	59	48	107
			%	0	0	0	55	45	100
		Betulungan etam bisa (X4)	f	0	0	0	49	58	107
			%	0	0	0	46	54	100
2	Empowerment of *BUMDes* (Y1)	Increasing the awareness of the importance of *BUMDes* (Y11)	f	0	0	17	60	30	107
			%	0	0	16	56	28	100
		Increasing the awareness of the need to implement *BUMDes* integration (Y12)	f	0	0	20	21	66	107
			%	0	0	19	20	62	100
		Technical guidance for *BUMDes* integration planning(Y13)	f	0	0	0	2	105	107
			%	0	0	0	2	98	100
		Training for the implementation of *BUMDes* (Y14)	f	0	0	0	37	70	107
			%	0	0	0	35	65	100
		Empowerment of *BUMDes* within an integrated framework (Y15)	f	0	0	0	25	82	107
			%	0	0	0	23	77	100
3	Social Welfare (Y2)	Income (Y21)	f	0	0	0	76	31	107
			%	0	0	0	71	29	100

		Asset ownership (Y22)	f	0	11	20	58	18	107
			%	0	10	19	54	17	100
		Education (Y23)	f	0	0	0	79	28	107
			%	0	0	0	74	26	100
		Health (Y24)	f	0	11	16	58	22	107
			%	0	10	15	54	21	100
		Social Relationship (Y25)	f	0	0	19	58	30	107
			%	0	0	18	54	28	100

Source: Data Analysis (2025)

The community welfare variable was defined using the multidimensional framework established by (Stiglitz et al., 2011), which includes income, asset ownership, education, health, and social relationships, and is crucial for formulating effective welfare policies in Indonesia. The social capital variable was based on the frameworks of Putnam and Fukuyama (as referenced in Usman, 2018) but was modified to fit the local cultural context by integrating the notion of *betulungan etam bisa*, which highlights mutual collaboration and collective responsibility. The indicators comprised trust, collaborative endeavors to maintain Village-Owned Enterprises operations, consensus-driven decision-making, and compliance with cooperative principles grounded in local traditions. The Village-Owned Enterprises empowerment variable adhered to the framework established by (Wrihatnolo & Dwidjowijoto, 2007), defining empowerment as a process that encompasses awareness-building, capacity enhancement, and agency strengthening. This was assessed through indicators such as increasing awareness of Village-Owned Enterprises' significance, offering training and guidance, and incorporating Village-Owned Enterprises activities into diverse sectors of the village economy to promote productivity and sustainability.

This study employed an ordinal scale to evaluate the indicators measuring the research variables, a prevalent method in social and behavioral research for capturing respondents' perceptions or opinions regarding certain occurrences. The measurement utilized the Likert scale, created by Rensis Likert, which, as noted by (Sugiyono, 2012), offers a more precise depiction of respondents' attitudes. The questionnaire items intended to assess each variable were a sequence of comments or inquiries corresponding to the pertinent indicators. Participants were requested to indicate their degree of agreement or perception by providing a number from one (1) to five (5), with one (1) denoting the lowest rating and five (5) the greatest (refer to Table 2). This scaling method facilitated a systematic and measurable assessment of respondents' perceptions regarding the variables being examined.

3.3 Analysis approach

This study utilized Structural Equation Modeling (SEM) using SmartPLS version 4 for data processing and hypothesis testing. Structural Equation Modeling (SEM) is a multivariate statistical method that combines factor analysis and regression analysis to investigate the interrelationships among variables inside a model, encompassing the associations between indicators and their constructs, as well as the interactions within constructs. Inferential statistics were employed for quantitative analysis to answer the research issues, with nominal and ordinal scale data converted into interval or ratio scales to satisfy the statistical prerequisites for SEM analysis.

SmartPLS was chosen for its flexibility and capacity to concurrently estimate intricate models, providing benefits above conventional regression methods (Sholihin & Ratmono, 2013). Model evaluation employed various criteria in accordance with published norms (Hair et al., 2022): (1) Loading factor (LF) values exceeding 0.70 (LF > 0.70); (2) Composite reliability (CR) ≥ 0.70; (3) Rho_A ≥ 0.70; (4) Cronbach's alpha ≥ 0.70; (5) Average variance extracted (AVE) ≥ 0.50; (6) Acceptable cross-loading values; (7) Fornell–Larcker criterion for discriminant validity; and (8) Heterotrait–monotrait ratio (HTMT) < 0.90. Items failing to meet significance criteria were addressed per best practices (Yamin, 2023): (a) items with non-significant weights but LF ≥ 0.50 were retained; (b) items with LF < 0.50 and non-significant weights were discarded; and (c) items with LF < 0.50 but significant values were carefully evaluated for retention or exclusion. This meticulous methodology guaranteed the accuracy and dependability of the measurement and structural models in evaluating the suggested hypotheses.

4 RESULTS AND DISCUSSION

4.1 Evaluation of measurement model

Construct validity and reliability testing were performed to evaluate the measuring model's efficacy in capturing latent variables and to examine the consistency of the employed items. The analyzed indicators comprised loading factors, Cronbach's alpha, rho_A, average variance extracted (AVE), composite reliability (CR), heterotrait–

monotrait ratio (HTMT), Fornell–Larcker criterion, and cross-loadings. The detailed results from these studies are displayed in Tables 3 and 4.

Convergent validity was assessed by examining the loading factor and AVE values. Following the criteria outlined by Hair (as cited in Abdillah & Jogiyanto, 2015), items were considered valid when the outer loading exceeded 0.50 and the AVE value was greater than 0.50. Results from the SmartPLS version 4 algorithm confirmed that all indicators met the criteria for convergent validity (Table 3). For example, the indicator of trust (X1) recorded a loading factor of 0.837 (0.837 > 0.50), indicating that trust (X1) is a valid measure of the social capital (X) construct. The interpretation of the loading factor in squared form, referred to as item communality, shows that variations in social capital (X) are reflected by 70.06% of the variance in trust (X1) ($0.837^2 \times 100\% = 70.06\%$). Correspondingly, AVE values for all constructs exceeded the 0.50 criterion, affirming that the items collectively accounted for a significant percentage of the variance in their respective latent variables. The social capital construct exhibited an AVE of 0.753 (0.753 > 0.50), indicating that 75.3% of the variance in variables X1, X2, X3, and X4 was explained by the underlying social capital construct. The data combined indicate that the measurement model has robust convergent validity and is appropriate for subsequent structural modeling.

The subsequent phase in assessing the measurement model involved evaluating discriminant validity, which ascertains that each latent construct inside the model is empirically distinct from the others. Establishing discriminant validity is crucial to ensure that the indicators employed to measure one construct do not significantly overlap with those of other constructs, hence affirming the accuracy of the measuring instrument.This study assessed discriminant validity by three recognized methods: the Fornell–Larcker criterion, the heterotrait–monotrait ratio (HTMT), and cross-loadings. Based on the results in Table 4, the square root of the average variance extracted (AVE) for empowerment (Y1) is greater than its correlations with social capital (X) and welfare (Y2), and the same pattern is observed for all other constructs, confirming that the Fornell–Larcker criterion for discriminant validity is satisfied. Likewise, the heterotrait–monotrait ratio (HTMT) values for all variable pairs are below the 0.90 threshold, and the cross-loading analysis shows that each indicator loads more strongly on its corresponding latent variable than on any other construct. These findings collectively demonstrate that the measurement model fulfills all requirements for discriminant validity. Furthermore,

the reliability evaluation using Cronbach's alpha, composite reliability (CR), and rho_A values shows that all constructs exceed the recommended thresholds (CR > 0.70, Cronbach's alpha > 0.70, and rho_A > 0.70), indicating strong internal consistency and confirming that the measurement instruments are both reliable and valid for subsequent structural modeling and hypothesis testing.

Table 3

Model Pengukuran

Variable	Meas. items	Indicator	Outer loading/LF	Cronbach's Alpha	CR	AVE	Rho A
Social Capital (X)	X1 <- X	Trust	0.837	0.900	1.087	0.753	1.087
	X2 <- X	Sustainable Collaboration in *BUMDes*	0.847				
	X3 <- X	Consensus-Based Decision Making	0.882				
	X4 <- X	*Betulungan etam bisa*	0.904				
Empower (Y1)	Y1.1 <- Y1	Increasing the awareness of the importance of *BUMDes*	0.768	0.867	0.870	0.654	0.870
	Y1.2 <- Y1	Increasing the awareness of the need for *BUMDes* integration	0.835				
	Y1.3 <- Y1	Mentoring	0.852				
	Y1.4 <- Y1	Training	0.838				
	Y1.5 <- Y1	Empowerment	0.744				
Welfare (Y2)	Y2.1 <- Y2	Income	0.809	0.807	0.881	0.554	0.881
	Y2.2 <- Y2	Asset	0.586				
	Y2.3 <- Y2	Education	0.521				
	Y2.4 <- Y2	Health	0.909				
	Y2.5 <- Y2	Social Relationship	0.823				

Source: Data Analysis (2025)

Table 4

Discriminant validity

Fornell-Larcker criterion				
	Empower (Y1)	Social Capital (X)	Welfare (Y2)	Social Capital (X) x Empower (Y1)
Empower (Y1)	**0.8087**			
Social Capital (X)	0.2886	**0.8680**		
Welfare (Y2)	0.6317	0.1744	0.7446	
HTMT				
Empower (Y1)				
Social Capital (X)	0.2974			
Welfare (Y2)	0.6813	0.2061		
Social Capital (X) x Empower (Y1)	0.0823	0.3731	0.1284	
Cross Loading				
X1	0.287	**0.837**	0.136	-0.333
X2	0.208	**0.847**	0.078	-0.206
X3	0.144	**0.882**	0.069	-0.360
X4	0.281	**0.904**	0.216	-0.342
Y1.1	**0.768**	0.254	0.444	0.073
Y1.2	**0.835**	0.260	0.504	0.169
Y1.3	**0.852**	0.199	0.472	0.024
Y1.4	**0.838**	0.213	0.521	-0.037
Y1.5	**0.744**	0.237	0.584	0.005
Y2.1	0.436	0.142	**0.809**	0.091
Y2.2	0.219	0.187	**0.586**	-0.077
Y2.3	0.264	0.164	**0.521**	-0.126
Y2.4	0.607	0.175	**0.909**	0.063
Y2.5	0.621	0.066	**0.823**	0.076
Social Capital (X) x Empower (Y1)	0.056	-0.367	0.045	1

Source: Data Analysis (2025)

4.2 Evaluation of the structural model

The evaluation of the structural model began with a multicollinearity test, examining the inner VIF values using the criterion of VIF < 5. Table 5 indicates that all VIF values are below 5, signifying the absence of multicollinearity issues in the model. The path coefficient for the influence of empowerment (Y1) on welfare (Y2) is 0.633, with a P-value of less than 0.05 (0.000 < 0.05), signifying a statistically significant positive effect (Table 6). Table 5 indicates that social capital is not a significant moderating variable in enhancing the impact of empowerment on community welfare, as evidenced by a P-value exceeding 0.05 (0.936 > 0.05).

The f-square metric was employed to evaluate the effect size of the direct influence. Hair, as referenced in (Yamin, 2023), delineates the thresholds for interpreting

f-square values: for direct effects, 0.02 signifies a small effect, 0.15 a moderate effect, and 0.35 a large effect; for moderating effects, 0.005 is small, 0.01 is moderate, and 0.025 is large. According to Table 5, the f-square value for the impact of empowerment on welfare is 0.591, signifying a substantial effect. In contrast, the f-square value for social capital as a moderating variable is 0.000, signifying an insignificant effect. The insignificance of social capital as a moderator is further supported by its f-square value of 0.000, indicating that its moderating effect is minimal. The 95% confidence interval test offers additional insight by delineating the upper and lower bounds of the predicted path coefficients. The confidence interval for the impact of empowerment on welfare, as shown in Table 5, spans from 0.406 to 0.846. This suggests that augmenting Village-Owned Enterprises empowerment via initiatives like awareness-raising, capacity building, and agency enhancement could elevate its beneficial impact on community welfare to 0.846.

The structural model explains the interrelationships among the latent variables in the study. One method to assess the model's explanatory capacity is by analyzing the R-square (R^2) values. Chin, as referenced in (Yuliarmi et al., 2020), asserts that a R^2 value of 0.67 signifies a robust model, 0.30 denotes a moderate model, and 0.19 reflects a weak model. The study results, as shown in Table 5, indicate a R^2 value of 0.399, categorizing the model as moderate.

In SmartPLS, the Q-square (Q^2) statistic evaluates the structural model's ability to reconstruct observed data, hence demonstrating the model's predictive significance. Table 5 demonstrates that the Q^2 values exceed zero for all indicators except Y2.2, signifying that the model exhibits strong predictive relevance. A different method to assess prediction accuracy involves comparing the RMSE and MAE values obtained from PLS with those derived from a linear regression (LM) model. Reduced RMSE and MAE values in PLS signify enhanced prediction capability. The predominance of lower PLS values indicate that the model shows moderate predictive capability (Yamin, 2023).

Table 5

Evaluation of the structural model

Hypothesis	Path. Coef.	P value	95 % Path Coefficient		T-Stat	VIF	f^2	R^2	Q^2
			2.5%	97.5%					
Y1 -> Y2	0.633	0.000	0.406	0.846	5.424	1.128	0,591	0.399	0.322
X -> Y2	-0.005	0.952	-0.156	0.201	0.061	1.299	0.000		
X x Y1 -> Y2	0.008	0.936	-0.190	0.195	0.080	1195	0.000		
QE X -> Y2		0.789			0.267		0.002		
QE Y1 -> Y2		0.061			1.873		0.095		
GC Y1-> Y2		0.907			0.117				

Source: Data Analysis (2025)

Based on the results presented in Table 6, the RMSE and MAE values generated by the PLS model are predominantly lower than those produced by the linear regression (LM) model. This finding indicates that the PLS model demonstrates moderate predictive power, highlighting its ability to provide more accurate and reliable predictions compared to the linear model.

Table 6

Values of Q², RMSE, and MAE

	Q²predict	PLS-SEM_RMSE	PLS-SEM_MAE	LM_RMSE	LM_MAE
Y2.1	0.147	0.644	0.475	0.667	0.479
Y2.2	-0.013	0.931	0.711	0.772	0.560
Y2.3	0.021	0.841	0.632	0.675	0.519
Y2.4	0.321	0.581	0.419	0.604	0.433
Y2.5	0.329	0.520	0.425	0.560	0.424

Source: Data Analysis (2025)

4.3 Robustness chek

The robustness of the model was assessed by examining both linearity and endogeneity. Linearity was evaluated using the quadratic effect test, where non-significant results ($p > 0.05$) indicate that the linear relationship assumption is met. As shown in Table 7, the p-values for the quadratic effects of empowerment and social capital on welfare exceeded 0.05 (QE > 0.05), confirming that these relationships are linear and

thus meeting the robustness criterion. Endogeneity was assessed using the Gaussian copula approach. The results in Table 7 indicate that the p-value for the path from empowerment to welfare was greater than 0.05 (0.907 > 0.05), demonstrating the absence of endogeneity issues. These findings collectively confirm that the model is robust, providing a reliable foundation for interpreting the structural relationships among the studied variables.

Table 7

The significance test of the quadratic effects of the variables on welfare

	Original sample (O)	T statistics (|O/STDEV|)	P Values
Linierity chek			
Empower (Y1) -> Welfare (Y2)	0.583	5.254	0.000
Social Capital (X) -> Welfare (Y2)	0.003	0.041	0.967
QE (Social Capital (X)) -> Welfare (Y2)	-0.015	0.267	**0.789**
QE (Empower (Y1)) -> Welfare (Y2)	-0.127	1.873	**0.061**
Endogeneity chek			
GC (Empower (Y1)) -> Welfare (Y2)	0.046	0.117	**0.907**

Source: Data Analysis (2025)

4.4 Hypothesis testing

The bootstrap resampling technique was utilized to evaluate the hypotheses employing the T-statistic method. A hypothesis is accepted when the computed T-value above the critical T-table value, which in this case was 1.666 at an alpha level of 0.05. in addition to T-values, significance was assessed using the P-value, with results considered significant if $P < 0.05$. Table 5 indicates that the first hypothesis, that the empowerment of Village-Owned Enterprises positively and significantly impacts community welfare, is confirmed. The evidence is demonstrated by a T-value of 5.454, exceeding the critical value of 1.666 (5.454 > 1.666), a P-value below 0.05 (0.000 < 0.05), and a path coefficient of 0.633, signifying a strong and significant positive correlation. The second hypothesis, which posits that social capital moderates and strengthens the relationship between Village-Owned Enterprises empowerment and community welfare, is not confirmed. The path coefficient was 0.008, with a T-value of 0.080 (0.080 < 1.666) and a P-value of 0.936 (0.936 > 0.05), suggesting that the moderating influence of social capital is positive yet statistically insignificant.

5 DISCUSION

This study's findings demonstrate that the empowerment of Village-Owned Enterprises positively and significantly affects the welfare of rural communities in Kutai Kartanegara Regency, East Kalimantan Province. Enhanced empowerment of Village-Owned Enterprises correlates with significant advancements in community welfare. Furthermore, while the moderating effect of social capital on the relationship between Village-Owned Enterprises empowerment and community welfare was deemed statistically insignificant, the findings indicate that social capital nonetheless plays a role in enhancing the positive impact of empowerment on welfare.

Community empowerment is an essential method for promoting autonomy and enhancing welfare, especially in rural regions like Kutai Kartanegara. In this setting, Village-Owned Enterprises act as a crucial mechanism for local empowerment, driving the rural economy by leveraging accessible local resources. This dual role not only produces financial advantages but also fortifies the community's social structure. Village-Owned Enterprises support villages in maximizing their natural resources, communal competencies, and indigenous traditions through effective empowerment. A Village-Owned Enterprises can oversee agricultural products by partnering with local farmers to transform harvests into value-added products and market them efficiently. These efforts not only produce revenue but also augment the overall value obtained from community labor.

The findings affirm the substantial and beneficial impact of Village-Owned Enterprises empowerment on community welfare, consistent with the views of (Prawirokusumo, 2001) and (Adi, 2008), who underscore the necessity of people-centered economic development for the empowerment of rural communities. This notion emphasizes the significance of active community involvement in economic decision-making processes that directly affect their lives. Village-Owned Enterprises serve not just as commercial organizations but also as venues for collaboration and innovation, promoting locally driven economic solutions. The empowerment of Village-Owned Enterprises in Kutai Kartanegara has significantly and sustainably enhanced community welfare by utilizing local resources and promoting collective participation. This insight aligns with (Adi, 2008), who emphasizes economic empowerment as a crucial avenue for enhancing quality of life. (Wrihatnolo & Dwidjowijoto, 2007) assert that empowerment

is a dynamic process comprising three essential stages: awareness, capacity building, and agency enhancement. The preliminary phase, awareness, entails communities acknowledging their capabilities and obstacles. Capacity building ensues, providing technical direction, training, and education to augment the management and operational competencies of Village-Owned Enterprises. The concluding phase, enhancing agency, empowers communities to autonomously oversee their resources and make educated choices. (Yunus, 2008) asserts that raising quality of life is a primary result of economic empowerment, and Village-Owned Enterprises facilitate active community engagement in business management and development, hence improving social, cultural, and economic outcomes at the village level. The findings align with earlier research conducted by (Parida & Setiamandani, 2019), (Wardani & Utami, 2020), (Ningrum et al., 2021), (Suryawan & Utama, 2021), (Muhammad Yunus & Parapat, 2021), and (Hamisi et al., 2023), all of which indicate a positive and significant correlation between empowerment initiatives and community welfare.

Community empowerment is an approach that entails the active involvement of all constituents within the rural community, including village officials, local inhabitants, and community organizations, each of whom contributes significantly to the process. Nonetheless, the results of this study contrast with those of (Wibisono et al., 2021), who indicated that community empowerment had an insignificant effect on welfare, and with (Maulana et al., 2021), who determined that the empowerment of Village-Owned Enterprises did not significantly affect rural community welfare. The divergent outcomes indicate that, although Village-Owned Enterprises had significant potential to improve welfare, many factors, such as resource misappropriation and ineffective management practices stemming from insufficient managerial training, may impede their efficacy. In Kutai Kartanegara, community empowerment via Village-Owned Enterprises demonstrates significant potential to enhance self-sufficiency and sustained welfare advancements. Achieving optimal results necessitates joint efforts from all stakeholders, including sufficient technical direction, managerial support, and active community engagement in decision-making processes. This study's originality is in its focus on collaboration and managerial training as essential factors for Village-Owned Enterprises performance, underscoring their critical importance in enhancing community welfare in the region.

The research indicated that social capital in Kutai Kartanegara is comparatively

robust, as demonstrated in Table 2. The community's confidence in Village-Owned Enterprises is substantial, facilitating the effective operation of these organizations and the attainment of their goals. Trust, as the cornerstone of collaboration, cultivates more robust collective endeavors that subsequently bolster the development and sustainability of Village-Owned Enterprises, hence improving overall community welfare. The notion of "*betulungan etam bias*", a fundamental value representing communal collaboration, remains significant in community life, despite a potential fall in its intensity over time. The ethos of mutual assistance persists in rural regions, shown by communities collaborating to repair village roads to enhance Village-Owned Enterprises operations or engaging in social and cultural events. These behaviors illustrate that traditional ideals are ingrained in everyday life, offering a cultural foundation for collective action. Under these conditions, social capital can enhance and substantially moderate the impact of empowerment on welfare, corroborating the findings of (Yuliarmi et al., 2020), which indicated that social capital significantly amplified the moderating effect of cooperative empowerment on member welfare in Denpasar City.

This study revealed that although social capital positively moderates the impact of empowerment on enhancing community welfare, the moderating effect lacks statistical significance. The reduction in the functional significance of social capital corresponds with Robert Putnam's perspective that associates social capital with group membership, which he contends has been progressively declining, especially at the local level (Usman, 2018). The results demonstrate that the second hypothesis, which asserted that social capital considerably moderates and enhances the impact of Village-Owned Enterprises empowerment on community welfare, was not supported.

A probable explanation for this non-significant moderating role is the progressive erosion of the "betulungan etam bias" principle, attributed to the entrance of new technology that has not been well filtered or adapted in rural areas. The extensive utilization of social media and digital platforms frequently diminishes trust and collaboration by diverting focus from direct, community-enhancing interactions. The erosion of trust in Village-Owned Enterprises management, intensified by corruption scandals involving specific individuals, has diminished community confidence in an institution that ought to be the principal catalyst for rural economic development.

Although it lacks statistical significance as a moderator, social capital exhibits a positive effect, suggesting its relevance and potential to improve the performance and

impact of Village-Owned Enterprises in Kutai Kartanegara. The findings align with (Rahayu & Rozak, 2015), who observed that social capital functions as a moderating variable that enhances the link between empowerment and performance. In this setting, social capital serves to connect empowerment and welfare while also functioning as a catalyst for improving productivity and community performance.

In order to optimize this potential, focused initiatives are required to bolster social capital, including training programs that promote active community engagement, methods to fortify social networks, and actions to improve transparency in Village-Owned Enterprises management. These initiatives would not only restore community confidence in Village-Owned Enterprises leadership but also promote increased collective participation in activities that enhance economic and social empowerment. Despite the issues that must be confronted, the current level of social capital in Kutai Kartanegara offers a robust basis for facilitating community empowerment via Village-Owned Enterprises.

This study's novelty is in illustrating that, although social capital may not significantly statistically moderate the relationship between empowerment and welfare, its positive impact underscores the essential role of social dimensions in fostering sustainable economic empowerment. Enhancing social capital can empower Village-Owned Enterprises to function more efficiently, improve community welfare, and safeguard the local wisdom and values that support collective action.

6 CONCLUSIONS

This study concludes that the empowerment of Village-Owned Enterprises positively and significantly impacts community welfare enhancement. In Kutai Kartanegara Regency, East Kalimantan Province, Village-Owned Enterprises function not only as economic entities but also as strategic instruments to improve the quality of life in rural areas. By utilizing local potential, including natural resources, community skills, and local culture, Village-Owned Enterprises can operate as sustainable economic catalysts. In numerous communities within the regency, Village-Owned Enterprises have effectively administered agricultural and fisheries resources, enhancing the incomes of farmers and fishers while generating new employment opportunities. Training initiatives in agricultural product processing have augmented the value of local products, hence

enhancing household incomes. Nonetheless, obstacles persist, especially regarding management efficacy, frequently attributed to constrained managerial capability and diminishing confidence in Village-Owned Enterprises leadership. If these challenges remain unaddressed, they may hinder Village-Owned Enterprises from realizing its full potential to provide sustainable benefits.

The research indicates that social capital acts as a positive moderating variable in the correlation between Village-Owned Enterprises empowerment and community welfare, albeit this moderating impact lacks statistical significance. Components of social capital trust, cooperation, consensus-building, and the local principle of *betulungan etam bisa*, are crucial in cultivating a conducive atmosphere for collaboration and mutual aid. Villages characterized by mutual trust among inhabitants typically attain superior results in Village-Owned Enterprises projects. This indicates that although social capital may not directly enhance welfare, it is essential for creating the synergy required for effective empowerment programs. Enhancing social capital and promoting collaboration among stakeholders are essential for the successful incorporation of Village-Owned Enterprises in community development initiatives. Strategic initiatives must encompass the establishment of inter- Village-Owned Enterprises networks, the enhancement of knowledge regarding the significance of collaboration, and the provision of ongoing managerial training. These initiatives can develop social networks and managerial competencies, hence improving the functioning of Village-Owned Enterprises and their beneficial effects on community welfare.

This research's novelty is underscored by three principal contributions. It underscores the significance of multi-stakeholder engagement and managerial training as essential elements in the success of Village-Owned Enterprises and, consequently, in enhancing rural welfare in Kutai Kartanegara. Secondly, it incorporates the culturally embedded notion of *betulungan etam bisa* as a measure of social capital inside a quantitative SEM-PLS model, providing a novel contribution, as few research has integrated local cultural values into such analytical frameworks. This research specifically investigates the moderating role of social capital in the relationship between Village-Owned Enterprises empowerment and community welfare, a focus that is notably uncommon, particularly within rural communities in East Kalimantan, despite numerous studies examining the relationships among empowerment, social capital, and welfare.

Contribution/Originality: This research significantly contributes to the understanding of Village-Owned Enterprise empowerment and its impact on the welfare of rural communities in Indonesia. By highlighting the importance of social capital as a moderating variable, this study enriches the existing literature and brings to light the dynamics that influence community welfare.

Transparency: The authors state that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.

Competing Interests: The authors declare that they have no competing interests

Author Contributions: Conceptualization, Methodology, Software, Writing – original draft, Resources, Validation, Writing – review & editing, Ida Bagus Made Agung Dwijatenaya (IBMAD); Conceptualization, Methodology, Formal analysis, Supervision, and Visualization Yonathan Palinggi (YP); Project administration. and Writing – original draft, Astik Drianti (AD); Formal analysis, Review and editing, Musmuliadi (M); Resources, Writing – review & editing, Syahrani (S). All authors have read and approved the final manuscript for submission.

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Authors' Contribution

Both authors contributed equally to the development of this article.

Data availability

All datasets relevant to this study's findings are fully available within the article.

How to cite this article (APA):

Dwijatenaya, I. B. M. A., Palinggi, Y., Drianti, A., Musmuliadi, & Syahrani. (2025). VILLAGE OWNED ENTERPRISES AND COMMUNITY WELFARE: THE MODERATING ROLE OF SOCIAL CAPITAL IN RURAL INDONESIA. *Veredas Do Direito*, 22(3), e223397. https://doi.org/10.18623/rvd.v22.n3.3397