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DEVELOPMENT OF VILLAGE ENTERPRISES BASED ON INSIDE-OUT LOGIC BUSINESS STRATEGY WITH DEMATEL DEVELOPMENT TECHNIQUE TO DETERMINE THE OPTIMIZATION OF TOURISM VILLAGE BUSINESS STRATEGY

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Abstract

This study seeks to address key barriers impeding the advancement of tourism villages operated by Village-Owned Enterprises in East Java. It aims to devise efficient strategies for enhancing the management of these tourism villages by employing the Inside-Out Logic Business Strategy. This methodology emphasizes prioritizing obstacles and optimizing decision-making trade-offs. The research methodology integrates Interpretive Structural Modeling (ISM) and DEMATEL techniques in a two-phase hybrid approach. ISM constructs a hierarchical framework of identified barriers, while DEMATEL quantitatively assesses interrelations among factors. The study's sample comprises 350 purposively selected BUMDes overseeing tourism villages in East Java. Findings reveal critical hurdles like stakeholder coordination deficits, inadequate lodging facilities, and community innovation shortcomings as primary obstacles in the tourism village development ecosystem. Factors like limited access and connectivity are notably influenced by these primary barriers. The hierarchical depiction and interplay analysis of these factors offer strategic decision-making insights. This study presents a novel ISM-DEMATEL model that not only pinpoints key hurdles hindering rural tourism progression but also furnishes an evidence-based decision-making instrument for formulating more effective and sustainable policies.

Keywords : Village-owned enterprises, ISM, DEMATEL, rural tourism, decision making.

1. INTRODUCTION

Tourism villages have been managed by 5,037 tourism BUMDes, with a capitalization of IDR 326.36 billion, absorbing a workforce of 20,369,834 people with a turnover of IDR 4.6 trillion (Triyatna, 2022). However, the contribution of BUMDes has not been optimal as a foundation for sustainable rural economic development. Many emerging tourist villages are only managed haphazardly, seasonally, and sporadically without using the right business strategy as a leading and sustainable tourist destination. The strategy that needs to be developed can be through the Inside-Out Logic Business Strategy (I-OLBS) which is a differentiation strategy. The application of this strategy allows BUMDes to create a variety of tourism products or services, programs, or activities that are considered different from what is usually done by global-scale professional tourism entrepreneurs (Jena & Dwivedi, 2023). Strengthening brand awareness and a positive image of the tourism village is necessary. Some products, programs, or activities must be reflected in the strategy implemented (Le Hong & Hsu, 2024). Considering that villages are not allowed to do business directly, BUMDes becomes a forum to increase village revenue through an optimum strategy that provides added value for BUMDes tourism.

Village tourism is one of the strategic approaches in developing the rural economy through the utilization of local potential. The development of tourism villages not only improves community welfare through the tourism sector, but also strengthens community involvement in the sustainable management of local resources. According to Ćur\vcić et al. (2021), village tourism plays an important role in reducing the economic gap between urban and rural areas, and contributes to the diversification of village income sources. Village-owned enterprises (BUMDes) act as economic institutions managed by village governments and communities to manage various business sectors, including tourism development. In the

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context of tourism village management, BUMDes acts as the main driving force that manages natural resources, culture, and local products to attract tourists. According to Law No. 6/2014 on Villages, BUMDes are expected to be an instrument of village economic development through the optimization of local assets and potential (Indonesia, 2016).

The determination of the optimum strategy is faced with a trade-off of various constraints that limit strategy formation. Such constraints include lack of access and connectivity, inadequate accommodation, inadequate tourist facilities, unattractive local entertainment, lack of destination advertising, lack of historic site policy and promotion, lack of strategic planning, and weak coordination among stakeholders (Kyrylov et al., 2022; Thumrongvut et al., 2022; Schubert & Schamel, 2020). Other barriers include unprofessional customer service, lack of investment in the tourism sector, low innovation support, high taxes, lack of experts, untrained local guides, limited communication skills, and lack of adequate infrastructure and security policies.

Research on the development of tourist villages has been conducted by various researchers. First, Wikantiyoso et al., (2021); Susanti, (2020); Kabu & Tandilino, (2021) highlighted that the development of tourist villages requires strong community-based management to support tourism sustainability. A key success factor is the active involvement of local communities. Next, Ardilafiza et al., (2021); Kismartini & Pujiyono, (2020) found that the lack of coordination between stakeholders is a major obstacle in the management of tourist villages in Indonesia. The lack of synergy between the government, community, and private sector hinders the effectiveness of tourism development. Furthermore, Fatchurrohman et al., (2023); Amrullah et al., (2023); Tang et al., (2022) showed that innovation in the management of tourism villages, especially in terms of promotion and digitalization, is crucial in increasing the attractiveness and sustainability of village tourism. Next, Ariyani et al. (2023) emphasized that the lack of investment and infrastructure support is a major barrier to the development of tourism villages. They suggested policies that are more supportive of infrastructure and technology investment in tourism villages. Finally, Chirieleison et al., (2021); Azmi et al., (2023); Komsi Koranti, M. Yunanto, (2019) discuss the importance of differentiation strategies in the management of tourist villages. They point out that successful tourist villages tend to have superior products that are unique and different from other tourist destinations.

Although many studies have been conducted on the development of tourism villages, there are several research gaps that have not been widely explored, including first, the lack of strategies based on Inside-Out Logic. Previous research has focused more on outside-in strategies, which only look at the external potential of the village. This research seeks to fill this gap by adopting an Inside-Out Logic strategy that focuses on managing internal advantages. Next, there is a lack of empirical studies on interactive barriers. Most previous studies only identified individual barriers to tourism village development. This study uses a more in-depth quantitative approach through the DEMATEL method to explore the interactive relationship between barriers. Finally, the development of the ISM-DEMATEL hybrid model. Previous studies have not used this hybrid method to understand the hierarchical structure of barriers and the interactions between factors inhibiting the development of tourist villages as a whole.

The focus of the research was first, how to identify the key barriers affecting rural tourism growth. Next, how to develop a robust integrated research approach to prioritize decision-making on these barriers and determine the optimal trade-offs for a successful strategy. This study aims to first, Identify the main barriers affecting rural tourism growth in tourism villages managed by BUMDes in East Java. Next, Develop an integrated research approach using the hybrid ISM-DEMATEL method to prioritize these barriers, measure interactions between factors, and develop optimal strategies for tourism village development. Next, Optimizing the application of the Inside-Out Logic Business Strategy (I-OLBS) strategy in the context of tourism village management to create sustainable competitiveness and increase the contribution of BUMDes to the rural economy. Finally, provide practical recommendations for stakeholders related to the management of tourist villages, particularly in dealing with existing barriers and trade-offs, as well as improving the effectiveness of strategic decision-making.

2. RESEARCH METHODS

This research utilizes a two-phase hybrid methodology that brings together the Interpretive Structural Modeling (ISM) and DEMATEL development approaches. This methodology was chosen because it is able to illustrate the complex relationships between various factors inhibiting the development of rural tourism managed by Village-Owned Enterprises (BUMDes), while providing guidance to prioritize these factors. In the first phase, the ISM method was used to identify and build a hierarchical structure of the barriers affecting village tourism development. This method organizes the relationships between factors in the form of a multi-level model that facilitates the visualization of interactions between factors in a systematic manner. The data used in this study are primary data obtained through questionnaires which were distributed to BUMDes managers who manage tourist villages in East Java. The sample in this study is BUMDes that manage tourist villages in the East Java region as many as 350 which are spread across various regencies from Banyuwangi to Pacitan.

The Inside-Out Logic Business Strategy approach in the context of tourism village development emphasizes the use of internal advantages to create competitiveness and strengthen local business capacity (Dias et al., 2020). This strategy focuses on strengthening the assets owned by the village, such as human resources, local culture, and tourism infrastructure, to face external challenges. Almandoz, (2023) asserts that the success of an organization in an inside-out strategy depends on how the organization can manage its internal advantages well. In developing tourism villages, BUMDes need to identify internal factors that can be optimized, such as manager skills, superior tourism products, and cooperation networks. According to Ariyani & Fauzi, (2023), the inside-out strategy is suitable in the context of tourism development in rural areas that have unique characteristics and resources. These internal advantages need to be managed well in order to compete with other tourist destinations.

The Interpretive Structural Modeling (ISM) method and DEMATEL development are effective approaches in identifying, prioritizing, and quantifying the influence of factors that affect the development of a complex system (J.-K. Chen, 2021). ISM is a modeling technique used to establish hierarchical relationships between complex variables, which helps researchers to identify which factors are the most fundamental and dominant (Mercado et al., 2023; Xu & Zou, 2020; Ahmad & Qahmash, 2021). In the context of tourist villages, ISM is used to identify key barriers and organize them into a clear structure. DEMATEL (Decision Making Trial and Evaluation Laboratory) is a method used to analyze the mutual relationships and measure the strength of influence between the identified factors (C.-Y. Chen & Huang, 2022). Kadoić et al., (2018); W. Chen et al., (2023) showed that DEMATEL can transform complex relationships into a more structured form, thus facilitating strategic decision making. In this study, DEMATEL was used to measure the intensity of interactions between factors affecting the development of tourist villages, both as causes and effects. The combination of ISM and DEMATEL results in a hybrid approach that provides a holistic picture of the barriers, while prioritizing actions to be taken to achieve the goal of sustainable tourism village development.

The DEMATEL (Decision Making Trial and Evaluation Laboratory) technique can be used to identify cause-and-effect relationships between barriers that affect rural tourism. The DEMATEL analysis steps include identifying barriers, creating a Direct Influence Matrix, normalizing the direct relationship matrix, creating a Total Influence Matrix with the following formula:

$$T = D'(I - D')^{-1} \ldots\ldots\ldots\ldots\ldots.\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.\ldots\ldots\ldots\ldots (1)$$

The last is the calculation of total effect and net effect with the following formula and interpretation:

$$r_i = \sum (the\ influence\ exerted) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.\ldots\ldots (2)$$

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$$c_i = \sum (influence\ received) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ (3)$$

Interpretation of results:

$If\ r_i - c_i > 0,$ *the obstacles are more of a cause*
$If\ r_i - c_i < 0,$ *these obstacles are more influenced by other obstacles*

3. RESULTS AND DISCUSSION

3.1. Research result

The first step in the DEMATEL Technique is the creation of a Direct Influence Matrix where the data provides the value of the influence between barriers on a scale which is then followed by normalizing the direct relationship matrix by dividing each element by the largest value of the number of rows or columns. The results of the two steps look like the following figure:
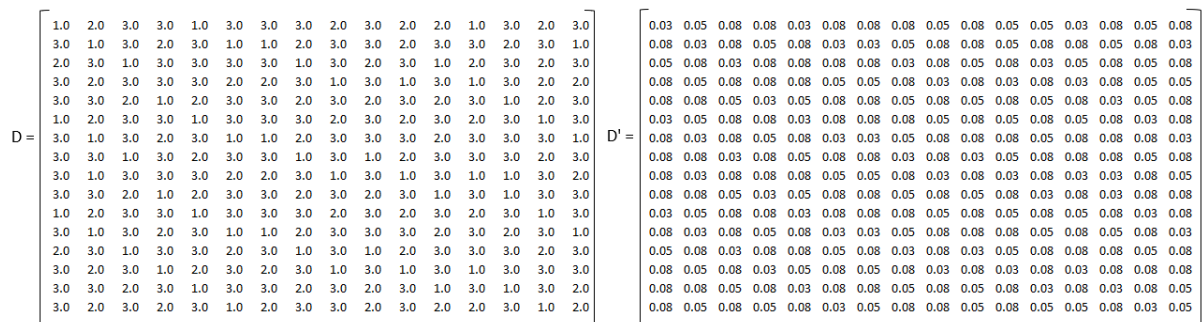

Figure 1. Direct Relationship Matrix and Normalization

Source: Processed data, 2024

The next step is to create a Total Influence Matrix using the previous formula where I is the identity matrix and D′ is the normalization matrix. The results of the two matrices look like the following figure:
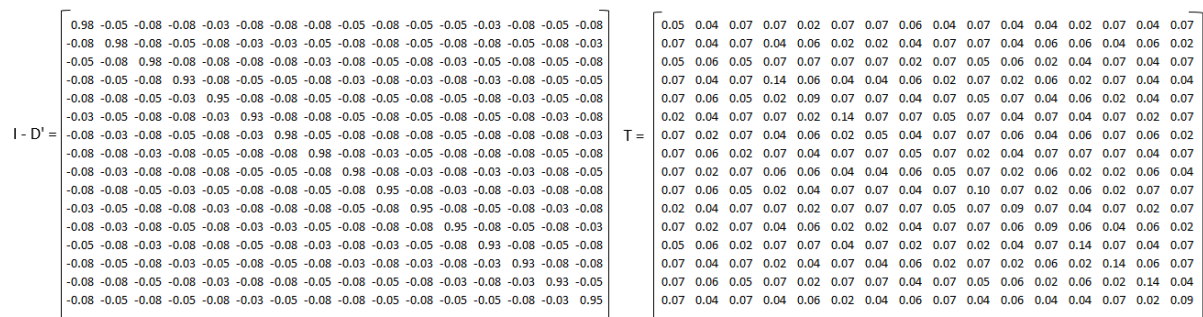

Figure 2. Identity Matrix and Total Influence

Source: Processed data, 2024

The final step is to calculate the total influence received (row sum) and given (column sum) for each obstacle. The results of the calculation look like the following table:

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Table 1. Total Influence and Net Influence

Code	Influence is given r_1	Influence received C_1	Net Influence	Conclusion
CR1	0.83	0.96	-0.13	Affected by other obstacles
CR2	0.79	0.71	0.08	Cause
CR3	0.87	0.91	-0.05	Affected by other obstacles
CR4	0.88	0.92	-0.04	Affected by other obstacles
CR5	0.89	0.81	0.08	Cause
CR6	0.92	0.88	0.04	Cause
CR7	0.83	0.87	-0.04	Affected by other obstacles
CR8	0.91	0.78	0.13	Cause
CR9	0.75	0.91	-0.16	Affected by other obstacles
CR10	0.89	0.94	-0.04	Affected by other obstacles
CR11	0.90	0.81	0.09	Cause
CR12	0.81	0.84	-0.03	Affected by other obstacles
CR13	0.91	0.83	0.08	Cause
CR14	0.88	0.92	-0.04	Affected by other obstacles
CR15	0.92	0.83	0.09	Cause
CR16	0.85	0.90	-0.05	Affected by other obstacles

Source: Processed data, 2024

3.2. Discussion

Identification of Key Barriers Affecting Rural Tourism Growth

Identifying barriers affecting rural tourism growth is an important first step in the effort to optimize business strategies in tourist villages. Based on the results of data analysis using the DEMATEL technique, it was found that several barriers play a significant role in the growth of the tourism sector in East Java's tourist villages. These barriers can be categorized based on their net influence, i.e. whether they are more dominant as causes or more influenced by other barriers. The main barriers that are influenced by other barriers look like the following table:

Table 2. Main barriers influenced by other barriers

Barriers	Net Influence
Lack of access and connectivity	-0.13
Inadequate facilities	-0.05
Local entertainment that is not interesting	-0.04
Lack of strategic planning for the promotion of rural tourism destinations	-0.04
Unprofessional customer service	-0.16
Lack of investment in the tourism sector	-0.04
High taxes on tourism products and services	-0.03
Lack of trained local guides	-0.04
Lack of infrastructure and security policies	-0.05

Source: Processed data, 2024

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The above barriers indicate that many of the challenges of rural tourism in East Java are more structural in nature, and require improvements from various aspects, including improved connectivity, facilities, and more mature strategic planning. On the other hand, the barriers that act as causes are also quite large in number, as shown in the following table:

Table 3. Barriers that act as causes

Barriers	Net Influence
Lack of suitable and adequate accommodation	0.08
Lack of advertising of tourist destinations both locally and internationally	0.08
Lack of policies and promotion of heritage or ancient rural historical sites	0.04
Lack of effective coordination between stakeholders	0.13
Lack of support for innovation by the community	0.09
Limited number of experts	0.08
Lack of communication skills other than local language	0.09

Source: Processed data, 2024

These barriers suggest that the main problems in village tourism are related to a lack of strategic support and coordination, both in terms of promotion, innovation, and human resources. Therefore, policy interventions that focus on improving innovation, more effective promotion, and human resource capacity development are key to driving rural tourism growth.

Developing an Integrated Research Approach to Decision Making

The research approach used in this study is based on the DEMATEL technique, which aims to provide a comprehensive mapping of the cause-and-effect relationships between barriers. This method is effective in prioritizing the barriers that should be addressed first in tourism village business decision-making, especially with the identification of the net effect of each barrier. The inside-out logic strategy applied in this study refers to developing the internal strengths of BUMDes and tourist villages to respond to external challenges. Thus, causal barriers, such as lack of suitable accommodation, lack of destination advertising, and lack of effective coordination between stakeholders, need to be the main focus. Efforts to improve synergy between stakeholders and develop effective promotions are key in this inside-out strategy. This is in line with strategy optimization efforts that not only focus on addressing barriers, but also explore the internal potential of tourism villages.

In the context of trade-offs that must be taken into account, this study shows that there is a trade-off between the need for investment in infrastructure and promotion. In a situation where resources are limited, tourism villages should prioritize more effective promotion to attract visitors, while upgrading infrastructure and facilities can be done gradually. Thus, BUMDes need to allocate resources carefully to support sustainable tourism development. The integrated approach in this study emphasizes the importance of combining data analysis with clear business strategies to overcome key barriers. With an understanding of the influencing barriers, BUMDes can more easily make decisions based on priorities, as well as determine the steps that need to be taken to achieve optimization of the tourism village business strategy.

BUMDes Development Strategy to Optimize the Growth of Tourism Villages

The results of the analysis using the DEMATEL technique show that some of the barriers are complex, with significant interplay between them. Therefore, the strategy developed should be holistic, focusing on optimizing the internal strengths (inside-out logic) of the BUMDes. BUMDes need to develop strategies

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based on inside-out logic by utilizing local potential and resources to deal with the identified barriers. Some strategic steps that can be taken to optimize the growth of tourist villages include improving the quality of accommodation and tourist facilities, more effective promotion of tourist destinations, strengthening coordination between stakeholders, developing innovation and human resources (HR) and optimizing investment and policies. Based on the results of the analysis, the lack of suitable and adequate accommodation is one of the causal obstacles. Therefore, BUMDes needs to develop a program to improve standardized and attractive accommodation facilities for tourists. Investment in the construction or renovation of accommodation can be done in collaboration with the private sector or relevant government agencies. Another important barrier is the lack of advertising of tourist destinations, both locally and internationally. BUMDes can collaborate with local governments and local communities to design creative and effective promotional strategies. Utilizing digital platforms, social media and international networks is one relevant way to expand the reach of promotions.

Lack of effective coordination among stakeholders is a bottleneck with a major influence on the successful development of tourism villages. To overcome this obstacle, BUMDes should play an active role as a bridge of coordination between local government, local communities and the private sector. This collaborative approach is important to ensure synergy in planning and implementing tourism development strategies. Lack of innovation support by the community and limited number of experts are important barriers that require attention. To address this, BUMDes can initiate training programs for local communities to improve skills in tourism, such as tour guiding, customer service, and destination management. In addition, innovations in tourism products, such as the development of culture-based attractions or ecotourism, can enrich the tourist experience. Lack of investment in the tourism sector and high taxes on tourism products and services are barriers influenced by other factors. Therefore, BUMDes need to act as a catalyst in attracting investment through cooperation with the private sector or funding institutions. On the other hand, advocacy for tax policy adjustments on tourism products and services can be done by involving local governments, to encourage a more friendly investment climate for tourism villages.

Determining Optimal Trade-offs in Strategy Development

After identifying the bottlenecks and understanding the cause-and-effect relationships, the next step is to determine the optimal trade-offs for the development of the BUMDes business strategy. One of the key trade-offs found was between tourism destination promotion and infrastructure development. Under the condition of limited resources, BUMDes have to choose the priority between improving physical infrastructure or enhancing promotional campaigns. One approach that can be taken is to prioritize promotion first to attract tourists, which in turn will create a new source of revenue for the BUMDes. This revenue can then be used to finance the gradual improvement of infrastructure. Thus, investment in promotion will provide both short-term and long-term benefits that can drive tourism economic growth in a sustainable manner. Other trade-offs that need to be taken into account include human resource capacity development and innovation support by the community. HR development through training and education is an important long-term measure, but BUMDes also need to direct the community to innovate more creative and local wisdom-based tourism products. Therefore, a balanced strategy needs to be developed to ensure that investment in HR development goes hand in hand with encouraging innovation in the tourism sector.

Policy Implications and Recommendations

The results of this study provide several important implications for policy makers at the village and regional levels. The development of BUMDes based on inside-out logic requires closer cooperation between the government, community, and private sector. Policies that support infrastructure development, investment, and more targeted promotion will go a long way in overcoming the identified barriers. BUMDes need to be more actively involved in the formulation of policies related to tourism villages, given their

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strategic role in managing and developing local potential. In addition, incentives for the private sector to invest in tourism villages should also be considered, to ensure sufficient financial support to accelerate development. Recommendations that can be drawn from this study include first, Improving the capacity of BUMDes as the main actor in rural tourism development. Next, Develop stronger and more innovative promotional campaigns to attract local and international tourists. Next, Encourage multi-stakeholder collaboration, including government, community, and private sector, in overcoming key barriers. Finally, Provide training for local communities to improve skills in tourism services and destination management. With the implementation of measurable and collaborative strategies, it is expected that the obstacles faced in rural tourism development can be overcome, so that economic growth in tourist villages can continue to increase sustainably.

4. CONCLUSION

This study aims to identify the main barriers affecting rural tourism growth and develop an integrated approach to prioritize decision-making and determine optimal trade-offs in BUMDes business strategy based on Inside-Out Logic Business Strategy. Based on the results of the analysis using the DEMATEL technique, it was found that the most significant barriers affecting the growth of tourism villages in East Java can be categorized into two groups: barriers that act as causes and barriers that are influenced by other barriers. The barriers that act as primary causes include: lack of suitable and adequate accommodation, lack of advertising of tourist destinations, lack of effective coordination among stakeholders, lack of innovation support by the community, limited number of experts, and lack of communication skills other than local languages. Meanwhile, barriers that are more heavily influenced by other barriers include: lack of access and connectivity, inadequate facilities, unattractive local entertainment, lack of strategic planning for the promotion of rural tourist attractions, unprofessional customer service, lack of investment in the tourism sector, and lack of trained local guides.

These findings suggest that strategic barriers, such as coordination between stakeholders and effective promotion, play a key role in driving the growth of tourism villages. Therefore, the strategy taken by BUMDes must focus on strengthening these aspects through a holistic approach. The findings of this study have several important policy implications for the development of rural tourism, especially in the context of tourism villages managed by BUMDes. First, strengthening the role of BUMDes as a driving force for tourism villages must be supported by policies that encourage closer collaboration between local governments, local communities, and the private sector. Second, more targeted promotion policies need to be focused on improving the image of local and international tourism destinations. Third, investment support in the tourism sector is also a crucial aspect. Fourth, there needs to be an increase in the capacity of local human resources through ongoing training that focuses on tourism services, communication skills, and innovation of local culture-based tourism products.

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