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# Organizational strengthening as a village-owned enterprise capacity development effort in central Mamuju regency

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Abstract: This research examines organizational strengthening strategies to develop the capacity of Village-Owned Enterprises in Central Mamuju Regency, Indonesia. The study focuses on four key organizational dimensions: incentive systems, personnel utilization, communication, and managerial structure. Using a descriptive qualitative approach with a case study design, data were collected through in-depth interviews with 16 key informants, focus group discussions with stakeholders, direct observation of Village-Owned Enterprise management practices, and document analysis. The research results reveal significant challenges in organizational management, including inadequate implementation of professional management principles, suboptimal organizational structures, and limited transparency in decision-making processes. The study also identifies challenges in organizational culture, particularly the dominant "government project" paradigm rather than an entrepreneurial orientation, as well as budget resource limitations, with restricted capital allocation and ineffective financial management systems. Based on these findings, the research proposes a comprehensive organizational strengthening model that integrates incentive system reforms through a hybrid model combining fixed salaries with performance-based profit sharing; enhanced personnel utilization through competency-based selection and continuous capacity development; strengthened effective communication with stakeholders; and restructuring of managerial systems in accordance with current regulations. This model aims to transform Village-Owned Enterprises into independent, professional, and sustainable economic institutions that effectively contribute to rural development in Central Mamuju Regency.

Keywords: Community-based enterprises, Organizational development, Public sector management, Rural economic development, Village governance.

## 1. Introduction

Organizational strengthening represents a fundamental aspect in institutional capacity development across various levels of government, including at the village level. As the smallest entity within Indonesia's governmental structure, villages play a strategic role in driving national development through the optimization of local potential [1, 2]. The transformation of the development paradigm from a top-down to a bottom-up approach has promoted village independence in managing resources and developing the local economy [3, 4]. In this context, organizational strengthening becomes an essential pillar to ensure that institutions at the village level possess adequate capacity to perform their functions optimally [5] including in the management of village assets and economic potential.

The enactment of Law Number 6 of 2014 concerning Villages has provided a strong legal foundation for villages to develop their economic independence through various instruments, one of which is the Village-Owned Enterprise. Village-Owned Enterprises are designed as village economic institutions that aim to manage village assets, utilize village economic potential [6, 7] and ultimately improve the welfare of village communities [8]. This Village-Owned Enterprise concept aligns with a

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development paradigm that emphasizes active community participation and economic independence [9, 10]. However, the implementation of this concept in the field faces various challenges, particularly in terms of institutional aspects and organizational strengthening that still require serious attention [11, 12].

In Central Mamuju Regency, West Sulawesi Province, the phenomenon of organizational strengthening of Village-Owned Enterprises has become an important issue that needs to be examined in depth. Based on data from the Department of Village Community Empowerment (PMD) of Central Mamuju Regency, there are fundamental problems related to the legal status of Village-Owned Enterprises.

Table 1.

I amal Status of	Village Owned F	Entownices in	Control Morriso	$\mathbf{P}_{\alpha\alpha\alpha\alpha}$
Legal Status of	vinage-Owned r	enterorises in	Central Mamuju	negency (2024).

Status	Number of Village-Owned Enterprises	Percentage
Registered with Legal Entity Status	6	11%
In Process of Legal Registration	25	46%
Registration Challenges	16	30%
Not Yet Registered	7	13%
Total	54	100%

Source: Department of Village Community Empowerment of Central Mamuju Regency, 2024.

Of the 54 villages that have Village-Owned Enterprises, only approximately 11% have obtained legal entity status, while 46% are still in the registration process, 30% are experiencing problems during registration, and 13% have not registered at all. This condition reflects the weakness in the formal legal aspect of Village-Owned Enterprises, which impacts their ability to establish partnerships with external parties and access broader resources.

Beyond legal status issues, organizational strengthening of Village-Owned Enterprises in Central Mamuju Regency also faces other challenges in the form of inconsistency in implementing organizational governance [13]. The absence of clear organizational structures, disproportionate distribution of duties and responsibilities, and weak internal monitoring systems serve as indicators of suboptimal organizational strengthening of Village-Owned Enterprises [14, 15]. This situation is exacerbated by the fact that many Village-Owned Enterprises are staffed by individuals with close connections to village officials or even their family members, without consideration for the competencies and qualifications needed to manage a business entity [16]. This condition certainly impacts the professional management of Village-Owned Enterprises and their ability to achieve expected objectives. The challenges in organizational strengthening of Village-Owned Enterprises are also evident from the non-simultaneous pattern of Village-Owned Enterprise formation across villages in Central Mamuju Regency.



## Total village-owned enterprise

Total Village-Owned Enterprise

#### Figure 1.

Annual Establishment of Village-Owned Enterprises in Central Mamuju Regency.

Source: Data processed from the Department of Village Community Empowerment of Central Mamuju Regency and Village-Owned Enterprise Development Report of the Ministry of Villages, Development of Disadvantaged Regions, and Transmigration, 2024.

From the data above, it is evident that the establishment of Village-Owned Enterprises in Central Mamuju Regency has experienced fluctuations each year, with peak formation occurring in 2018 with 13 Village-Owned Enterprises. This data also indicates that 8 Village-Owned Enterprises were newly formed after the issuance of Government Regulation No. 11 of 2021 concerning Village-Owned Enterprises. This non-simultaneous formation pattern indicates differences in readiness and commitment of village governments in developing village economic institutions, which impacts the varying stages of organizational capacity development in each Village-Owned Enterprise. This phenomenon presents a distinct challenge in efforts to strengthen Village-Owned Enterprise organizations in Central Mamuju Regency, as it requires approaches tailored to the conditions and developmental stages of each Village-Owned Enterprise. Additionally, trauma resulting from the failure of previous government programs, such as Village Unit Business Entities and Village Business Cooperatives, also constitutes a psychological barrier in strengthening Village-Owned Enterprise organizations.

The weak ability of Village-Owned Enterprises to build partnerships with external parties also serves as an indicator of suboptimal organizational strengthening [17]. Village-Owned Enterprises in Central Mamuju Regency generally still experience difficulties in accessing broader markets and establishing production cooperation with external parties. This can be attributed to various factors, including network limitations, lack of information, and the absence of effective communication and marketing strategies. This condition ultimately limits the business development potential of Village-Owned Enterprises and their ability to make significant contributions to village economic improvement.

In the context of these issues, research regarding organizational strengthening models as an effort to develop the capacity of Village-Owned Enterprises in Central Mamuju Regency becomes relevant and important. Using the perspective of Capacity Development theory from Grindle [18] this research aims to identify effective organizational strengthening models that are adaptive to local conditions. It is expected that through this research, comprehensive strategies can be formulated to address various challenges in strengthening Village-Owned Enterprise organizations, thereby accelerating the achievement of Village-Owned Enterprise formation objectives as the driving force of village economies and instruments for improving community welfare. Thus, Village-Owned Enterprises in Central Mamuju Regency can develop into organizations that are institutionally strong, professionally managed, and operationally sustainable.

## 2. Method

This research employs a descriptive qualitative approach with a case study design to examine the organizational strengthening model as a capacity development effort for Village-Owned Enterprises in Central Mamuju Regency. Data collection was conducted through four primary techniques:

- 1. In-depth interviews with 16 key informants selected using purposive sampling (including the Head of Village Community Empowerment Division, Village Consultative Bodies from four villages, management from five Village-Owned Enterprises, three village heads, representatives from Bank Sulselbar, the Head of APDESI, and the Head of PAKSI);
- 2. Focus Group Discussions (FGD) involving various stakeholders to identify challenges and solutions for strengthening Village-Owned Enterprise organizations;
- 3. Observation of Village-Owned Enterprise management practices; and
- 4. Review of documents related to regulations and Village-Owned Enterprise management reports.

The research was conducted in Central Mamuju Regency during the period from August 2024 to February 2025, focusing on six Village-Owned Enterprises representing various management conditions (those with legal entity status and those without).

Data analysis included data collection, data reduction, data presentation, and drawing conclusions and verification, with a focus on four main dimensions of organizational strengthening based on Grindle [18] Capacity Development theory: incentive systems, personnel utilization, communication, and managerial structure. To ensure data validity, this research applied four criteria: credibility through source and method triangulation and extended observation; transferability through in-depth description of the research context; dependability through audit trails and systematic documentation; and confirmability through researcher reflexivity and member checking. The combination of various data collection methods and analytical techniques enabled researchers to gain a comprehensive understanding of the challenges and strategies for strengthening Village-Owned Enterprise organizations in Central Mamuju Regency.

## 3. Result and Discussion

## 3.1. Strengthening of Organizational Management

Research findings indicate that Village-Owned Enterprise organizational management in Central Mamuju Regency still faces various structural and operational challenges. The governance of Village-Owned Enterprises has not fully adopted professional management principles, as reflected in suboptimal organizational structures and unclear division of roles and responsibilities. Current organizational structures tend not to reflect the operational needs of Village-Owned Enterprises and are not aligned with the latest regulations stipulated in Government Regulation Number 11 of 2021. The majority of Village-Owned Enterprises have not fully understood and implemented the new organizational structure consisting of four main components: Village Deliberation as the highest authority holder, supervisor (village head), operational executor, and overseer.

Decision-making mechanisms in Village-Owned Enterprise management have not fully implemented the principles of transparency and accountability. Although village deliberation is stated as the highest decision-making forum, in practice many strategic decisions are made unilaterally by the village head or Village-Owned Enterprise management without going through participatory mechanisms. This phenomenon is evident from the management replacement process that often occurs without clear basis and without comprehensive village deliberation. This issue correlates with weak documentation and administration systems, where many Village-Owned Enterprises lack strategic planning documents, standard operating procedures, and adequate performance reporting systems.

The managerial capacity of Village-Owned Enterprise management presents a significant challenge in organizational strengthening. The majority of management has not mastered business management aspects, whether in terms of strategic planning, financial management, or market development. This is exacerbated by the minimal entrepreneurial experience possessed by management, resulting in limited ability to identify business opportunities and develop sustainable business strategies. Additionally, the phenomenon of dual positions between Village-Owned Enterprise management and village officials or Village Consultative Body members results in conflicts of interest and impedes professionalism in Village-Owned Enterprise management.

Strengthening the organizational management of Village-Owned Enterprises in Central Mamuju Regency requires a comprehensive approach that emphasizes organizational restructuring, enhancement of managerial capacity, and improvement of administrative systems. Based on analysis of the existing situation, Village-Owned Enterprises in Central Mamuju Regency must undertake organizational structure revitalization in accordance with Government Regulation Number 11 of 2021, clarifying the roles and responsibilities of each component. Second, they need to develop an integrated information management system to support transparency and accountability in Village-Owned Enterprise management [19]. Third, they should implement managerial capacity enhancement programs for Village-Owned Enterprise management with material covering strategic planning, financial management, and business development [20]. Fourth, they must establish firm regulations regarding prohibition of dual positions to avoid conflicts of interest and promote professionalism in Village-Owned Enterprise management [21].

#### 3.2. Organizational Culture

Research findings reveal that the organizational culture of Village-Owned Enterprises in Central Mamuju Regency has not fully supported the development of professional, innovative, and sustainable village economic institutions. The research uncovered a prevailing "government project" paradigm in Village-Owned Enterprise management, where these enterprises are viewed as extensions of government programs rather than independent business entities. This condition creates dependency on government assistance and impedes the development of entrepreneurial orientation necessary for building sustainable Village-Owned Enterprises. This project mentality is further exacerbated by trauma from the failure of previous village economic programs, such as Village Unit Business Entities and Village Business Cooperatives, which has resulted in low confidence and initiative among management in developing Village-Owned Enterprises.

The phenomenon of "bandwagon mentality" in business type selection indicates weak innovation culture and creativity within Village-Owned Enterprise organizations. Many Village-Owned Enterprises select business types by imitating other Village-Owned Enterprises considered successful, without conducting in-depth analysis of market potential and needs in their region. This results in unhealthy competition among Village-Owned Enterprises and local businesses, and hinders the development of business diversification appropriate to the characteristics and potential of each village. This weakness in innovation culture is also reflected in minimal digital technology adaptation in Village-Owned Enterprise business management and development, despite digitalization being a requirement in the contemporary economy.

The work culture within Village-Owned Enterprise organizations remains dominated by a spirit of "social service" rather than business professionalism. While the spirit of service represents a positive value, without being balanced with performance orientation and professionalism, it can impede the development of Village-Owned Enterprises as competitive business entities. Low salaries and profitbased percentage incentives (generally only around IDR 500,000 per month) further reinforce the perception that working in a Village-Owned Enterprise is merely a form of "service," not a profession that can ensure welfare. This condition causes difficulties in attracting and retaining quality human resources with the competence and motivation to develop Village-Owned Enterprises.

Organizational culture transformation becomes an important prerequisite in strengthening Village-Owned Enterprises in Central Mamuju Regency. A comprehensive cultural change strategy is needed, emphasizing the development of professionalism, entrepreneurship, innovation, and performance orientation values. Village-Owned Enterprises in Central Mamuju Regency are recommended to conduct development and socialization programs to change the "government project" paradigm to a "village business" paradigm in Village-Owned Enterprise management by developing reward and recognition systems that encourage creativity and innovation in Village-Owned Enterprise business development. Building a data-driven culture by conducting market analysis and village potential assessment before determining business types [22]. As well as integrating entrepreneurship and professionalism values in every aspect of Village-Owned Enterprise management [23] including in planning, organizing, implementation, and supervision.

#### 3.3. Budget Resources and Other Support

The study reveals that capital investment represents a significant challenge in the development of Village-Owned Enterprises in Central Mamuju Regency. Research findings indicate limitations in budget allocations from village governments for Village-Owned Enterprise capital investment, caused by competition with other village development program priorities. This phenomenon is particularly evident in village heads' priorities focusing more on implementing their personal vision and mission rather than developing Village-Owned Enterprises as village economic engines. Although some Village-Owned Enterprises submit proposals for increased capital investment, these proposals often fail to receive approval or are only partially approved from the requested amount. These capital limitations impact the ability of Village-Owned Enterprises to innovate and develop their businesses.

Financial management mechanisms of Village-Owned Enterprises have not been fully effective and efficient. Profit distribution of Village-Owned Enterprises generally follows a pattern of 30% for capital return, 30% for Village Original Income (PAD), and 30% for management incentives, while the remaining 10% is for operations. Although there are variations in distribution patterns, with some following provisions in the Regent Regulation (20% incentives, 20% PAD, 5% education, and the remainder for capital development), implementation is often inconsistent. Another issue is the weak accounting and financial reporting systems of Village-Owned Enterprises, which impacts the transparency and accountability of financial management. This condition is exacerbated by limited management competence in financial management and financial report preparation.

Access to external funding sources such as banking and other financial institutions remains highly limited. Only a small portion of Village-Owned Enterprises have successfully established partnerships with banking entities, and this is limited to Village-Owned Enterprises that have legal entity status and good administration. These limitations are caused not only by external factors such as requirements from banking institutions but also by internal factors such as lack of management understanding about credit application mechanisms and Village-Owned Enterprise administrative unpreparedness. Additionally, although there is potential for partnerships with the private sector such as plantation companies in the region, existing partnerships have not provided optimal benefits for Village-Owned Enterprises as they have not been managed professionally and systematically.

Strengthening budget resources and other support requires an integrated approach focusing not only on increasing budget quantity but also on improving management efficiency and effectiveness. It is necessary to develop regulations at the regency level that guarantee minimum allocation of Village-Owned Enterprise capital investment from the village budget, considering the development stage and needs of each Village-Owned Enterprise. Strengthening accounting and financial reporting systems of Village-Owned Enterprises through the development of simple yet comprehensive financial applications, accompanied by training for management [24]. Facilitating Village-Owned Enterprises to receive assistance in preparing funding proposals and credit applications to financial institutions [25].

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Developing strategic partnership schemes between Village-Owned Enterprises and the private sector [26] with the regency government involved as facilitator and regulator.

## 3.4. Organizational Strengthening Model for Village-Owned Enterprises Based on Grindle [18] Theory

Based on the research findings regarding the Organizational Strengthening Model as a Capacity Development Effort for Village-Owned Enterprises in Central Mamuju Regency, the following recommended model has been developed based on the Capacity Development theoretical framework by Grindle [18]. This theory identifies organizational strengthening as one of the main dimensions in capacity development, focusing on incentive systems, personnel utilization, leadership, communication, and managerial structures. The Village-Owned Enterprise organizational strengthening model based on Grindle [18] Capacity Development theory offers a comprehensive approach to address various challenges faced by Village-Owned Enterprises in Central Mamuju Regency. This model focuses on four main dimensions of organizational strengthening as identified by Grindle [18]: incentive systems, personnel utilization, communication, and managerial structure.



#### Figure 2.

The Village-Owned Enterprise organizational strengthening model based on Grindle [18].

The organizational strengthening model for Village-Owned Enterprises based on Grindle [18] theory offers a comprehensive approach encompassing four key dimensions: First, the model begins with incentive system reforms through the development of a hybrid model that combines fixed salaries with performance-based profit sharing as well as clear career pathways. Second, it continues with personnel utilization through competency-based selection mechanisms, placement according to expertise, and continuous capacity development through systematic training and intensive mentoring. Third, the model strengthens effective communication through the development of integrated communication strategies with stakeholders including village governments, communities, and potential partners. Finally, it is supported by managerial structure improvements through reorganization in accordance

with Government Regulation Number 11 of 2021, which separates strategic and operational functions, and digital transformation that optimizes the use of information technology in Village-Owned Enterprise management, marketing, and business development. The ultimate goal of this model is to build Village-Owned Enterprise organizations that are independent, professional, and sustainable in Central Mamuju Regency.

## 4. Conclusion

The research on the Organizational Strengthening Model as a Capacity Development Effort for Village-Owned Enterprises in Central Mamuju Regency reveals that Village-Owned Enterprise development faces multidimensional challenges encompassing aspects of organizational management, organizational culture, and budget resources. Based on Grindle [18] Capacity Development theory (1997), a comprehensive organizational strengthening model is proposed that integrates four key dimensions: Incentive system reforms through the implementation of a hybrid model combining fixed salaries with performance-based profit sharing; Personnel utilization through competency-based selection and continuous capacity development; Communication strengthening through integrated strategies with various stakeholders; and Managerial structure improvement through reorganization in accordance with Government Regulation Number 11 of 2021 and digital transformation. This model is designed to address fundamental issues such as low managerial capacity of management, dominance of the "government project" paradigm, limitations in capital investment, and inadequate legal status. The ultimate goal is to build Village-Owned Enterprises that are independent, professional, and sustainable as driving forces for village economies in Central Mamuju Regency.

## **Transparency:**

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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