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Institutional Capacity, Organizational Readiness, and Digital Transformation in Indigenous Village-Owned Enterprises: Evidence from Papua, Indonesia

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ABSTRACT

Digital transformation can strengthen rural enterprises, yet many Village-Owned Enterprises (BUMKAM) lack institutional readiness to implement it. This study examines how institutional capacity shapes digital transformation readiness and sustainable local economic development in indigenous dual-governance settings. A qualitative case study was conducted at BUMKAM Hena Ma Swoha in Tahima Soroma Village, Papua, Indonesia. Data from participatory observation, in-depth interviews, and focus group discussions with village officials, enterprise managers, customary leaders, and local MSME actors were analyzed thematically. Findings indicate that prolonged institutional dormancy, weak accountability, limited managerial capacity, and customary leadership arrangements undermined organizational readiness despite repeated public funding. The study concludes that digital transformation readiness depends not only on internal organizational capabilities but also on formal governance, accountability mechanisms, and customary institutions, highlighting practical pathways toward achieving sustainable local economic development.

Keywords: Customary governance; Digital transformation; Institutional capacity; Organizational readiness; Papua; Sustainable local economic development; Village-Owned Enterprise

INTRODUCTION

Digital transformation reconfiguring how organizations create and capture value through digital technology (Verhoef et al., 2021; Nadkarni & Prügl, 2021) is now a strategic imperative across sectors. Yet systematic review evidence shows that organizational readiness for digital transformation remains underdeveloped outside large, well-resourced firms (Michelotto & Joia, 2024). This matters practically: rural enterprises in developing economies are frequent targets of digitalization policy, yet policy enthusiasm consistently outpaces the institutional readiness required to act on it.

A growing body of research suggests this reflects a readiness problem more than a technology problem: an enterprise's governance, knowledge base, and management capacity not merely its access to digital tools determine whether it can recognize, absorb, and act on digital opportunity (Michelotto & Joia, 2024; Jewapatarakul & Ueasangkomsate, 2024). Absorptive capacity an organization's ability to recognize, assimilate, and apply new external knowledge (Cohen & Levinthal, 1990) helps explain why readiness gaps persist despite available technology or funding. In Indonesia, a validated assessment of Village-Owned Enterprises (BUMDES) found most enterprises highly aware that digitalization matters, yet only a minority possess adequate digital skills or budget to act on it an "awareness-capability gap" (Abdurokhim et al., 2026). This evidence is cross-sectional, leaving open how readiness forms in enterprises whose governance sits within customary or indigenous authority.

This is pressing for Village-Owned Enterprises (BUMDes) in Indonesia, the principal policy vehicle for converting village resources into economic value (Ultari & Khoirunurrofik, 2024), and consistently found to depend on institutional capacity an organization's ability to govern itself accountably through standardized procedures (Grindle, 1997; Prabowo & Setyono, 2022; Rahmawati et al., 2025). Institutional capacity is inseparable from accountability: village-fund governance research shows formal structures do not by themselves guarantee public trust, and that fund misuse specifically erodes confidence (Merawati et al., 2025). Where customary (adat) institutions coexist with formal government, adat authority can reinforce or undermine formal accountability depending on how the two systems interact (Hasanah et al., 2025), and external programs succeed or falter according to how well they engage existing customary leadership (Steenbergen, 2016).

Research Gap

This study identifies a gap at the intersection of three literatures developed largely in isolation. First, the digital-transformation and readiness literature establishes that readiness not technology availability is often the binding constraint (Michelotto & Joia, 2024; Jewapatarakul & Ueasangkomsate, 2024), and Indonesian survey evidence confirms a systemic awareness-capability gap among BUMDES (Abdurokhim et al., 2026), but this evidence is cross-sectional. Second, institutional-capacity literature explains why village enterprises underperform (Grindle, 1997; Prabowo & Setyono, 2022; Merawati et al., 2025) but has not been connected to digital-transformation readiness. Third, none of these literatures has been tested where enterprise governance is nested within indigenous customary authority.

Original Contribution of the Study

This study addresses this gap through a case study of BUMKAM Hena Ma Swoha in Tahima Soroma Village (Kayo Pulau), an indigenous coastal kampung in South Jayapura District governed jointly by formal village institutions and customary (adat) authority. Papua's kampung-based BUMKAM system is theoretically significant not because it is

remote, but because it constitutes a critical case (Flyvbjerg, 2006) for testing the boundary conditions of institutional-capacity and readiness theory.

The study's contribution is threefold. To institutional capacity theory, it shows the specific accountability and customary-governance mechanisms through which institutional capacity is built or foreclosed. To the digital-transformation and readiness literature, it shows institutional readiness is nested within, and gated by, customary governance and public accountability structures rather than a purely internal-organizational property (Michelotto & Joia, 2024) clarifying why an enterprise can remain "aware but not capable" (Abdurokhim et al., 2026) for over a decade. To the sustainable local economic development literature, it proposes a conceptual framework linking these constructs explicitly.

Accordingly, this study pursues three objectives: (1) to reconstruct BUMKAM Hena Ma Swoha's institutional trajectory and identify the mechanisms behind its prolonged non-readiness; (2) to examine how customary governance and membership boundaries shaped its knowledge base, accountability, and readiness; and (3) to assess the stakeholder consensus and support plan emerging from a subsequent forum as an instance of readiness-building

LITERATURE REVIEW

The Global Challenge of Digital Transformation in Rural Enterprises

Digital transformation change triggered by digital technology that reconfigures how value is created and captured (Verhoef et al., 2021; Nadkarni & Prügl, 2021) is now a near-universal priority, yet its translation into practice remains uneven. SME evidence shows adoption is incremental and capability-dependent (Kraft et al., 2022). In Indonesia, MSME digital transformation delivers measurable gains but is constrained by limited digital literacy (Purnomo et al., 2024), translating into productivity gaps outside Java (Lukas & Hasudungan, 2024). Rural enterprises are disproportionately exposed, combining limited infrastructure with limited organizational capacity.

Institutional Readiness and Knowledge Management as Preconditions for Digital Transformation

A growing literature argues this reflects a readiness problem more than a technology problem. Organizational digital-transformation readiness (ODTR) an organization's capacity to conceptualize, assess, and act on digital opportunity is a distinct but underdeveloped construct (Michelotto & Joia, 2024). SME research identifies knowledge acquisition and organizational readiness, alongside digital culture, as cornerstones of digital transformation (Jewapatarakul & Ueasangkomsate, 2024), connecting readiness to absorptive capacity (Cohen & Levinthal, 1990), which explains why readiness gaps persist without a stable knowledge base and engaged management. In Indonesia, a validated Digital Readiness Assessment of Village-Owned Enterprises found most enterprises aware that digitalization matters, yet only a minority possess adequate digital skills or budget an "awareness-capability gap" (Abdurokhim et al., 2026) developed through cross-sectional evidence, leaving unexamined how readiness forms within customary governance.

Institutional Capacity and Accountability in Village-Owned Enterprises

Institutional capacity refers to an organization's ability to formulate well-defined objectives, manage resources efficiently, and sustain functions over time (Grindle, 1997). Applied to BUMDes/BUMKAM, studies operationalize it through governance, human-resource competence, and standardized operating systems as principal determinants of performance (Prabowo & Setyono, 2022; Ultari & Khoirunurrofik, 2024; Rahmawati et

al., 2025). Village-fund accountability research shows formal mechanisms do not automatically generate trust; perceived misuse specifically undermines confidence (Merawati et al., 2025). Institutional capacity gaps are thus not only a governance problem but the mechanism through which digital-transformation readiness is built or foreclosed.

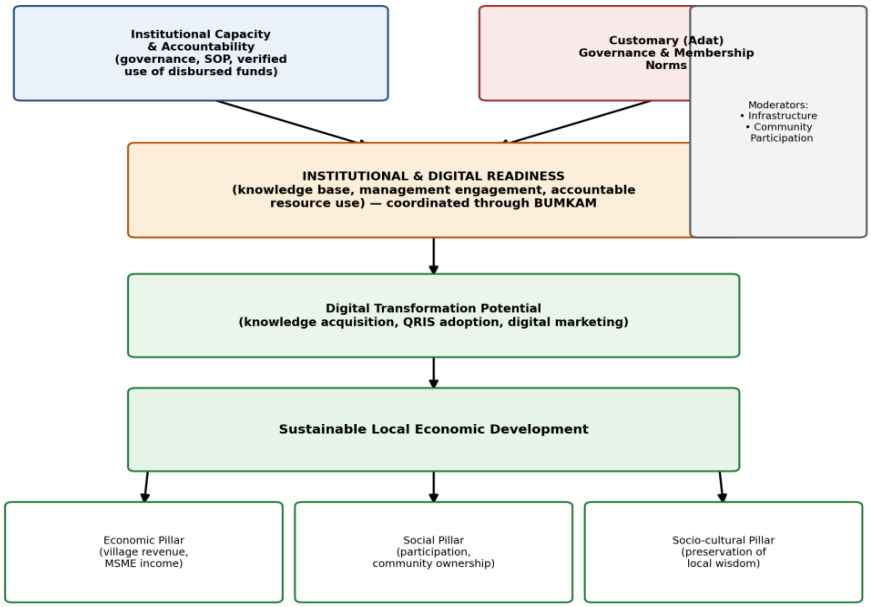
Customary Governance and Indigenous Community-Based Tourism

Community-Based Tourism (CBT) positions the community as the principal subject in planning, managing, and evaluating tourism activity (UNWTO, 2020). Comparative research shows customary institutions are far from uniform: where adat authority concentrates control over land and social hierarchy, it weakens formal accountability, whereas ceremonial authority can instead strengthen it (Hasanah et al., 2025). Research on customary leadership in eastern Indonesian coastal communities shows external programs succeed or fail depending on how they engage existing structures, though this can reinforce the limits of inclusion set by an already dominant group (Steenbergen, 2016). Similarly, indigenous tourism entrepreneurship, including Malaysia's Orang Asli, succeeds when embedded within existing customary structures (Razali et al., 2024). Because customary authority shapes who is eligible to lead, it also shapes who accumulates organizational knowledge a mechanism bearing on digital-transformation readiness that existing frameworks do not yet theorize.

Conceptual Framework

Drawing on this literature, this study proposes a conceptual framework (Figure 1) in which institutional capacity and accountability, together with customary governance and membership norms, jointly determine an enterprise's institutional and digital readiness the construct mediating whether digital transformation becomes possible. Readiness enables digital-transformation potential, encompassing knowledge acquisition, payment digitalization (e.g., QRIS), and digital marketing, contributing to sustainable local economic development across economic, social, and socio-cultural pillars (UNWTO, 2020), with infrastructure and community participation as moderators. Unlike frameworks that model readiness as purely internal (Michelotto & Joia, 2024), this framework treats readiness as co-produced with customary governance.

Figure 1. Conceptual Framework



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RESEARCH METHOD

This study employed a qualitative case-study design to reconstruct the institutional trajectory of BUMKAM Hena Ma Swoha in Tahima Soroma Village (Kayo Pulau), South Jayapura District, Jayapura City an indigenous coastal kampung whose customary structure comprises four clans (Sibi, Haay, Soro, and Youwe), each historically responsible for a domain of communal life: leadership, coastal/fishing traditions, spiritual stewardship, and territorial security. Tahima Soroma was selected as a critical case (Flyvbjerg, 2006) for examining institutional readiness under severe, persistent institutional-capacity constraint. This case study extends the wider community service program conducted in the village (Womsiwor et al., 2026).

Data were generated between May and July 2026 through semi-structured in-depth interviews with village officials the Village Head, Village Treasurer, RT (neighborhood head), Deputy Chair of the Bamuskam, and the Secretary of BUMKAM and local MSME actors; an MSME-potential mapping session; and a stakeholder socialization forum held on 18 July 2026. Interview data were recorded in structured field notes, organized by topic, and analyzed using thematic analysis (Braun & Clarke, 2021): familiarization, inductive coding, and grouping into themes corresponding to the study's objectives. Source triangulation compared accounts across informants to strengthen credibility; informants are identified by institutional role rather than by name.

Consistent with this design, the Results section reports patterns reconstructed from interview and observational data; the Discussion section then interprets those patterns against the literature reviewed above

RESULTS

The following subsections trace how institutional capacity and its prolonged absence shaped BUMKAM's readiness for digital transformation: a decade of dormancy and venture failure; the accountability gap behind it; the post-2025 structure; customary boundaries on leadership; and the stakeholder response from which a readiness-building plan emerged.

A Decade of Institutional Dormancy and Recurrent Venture Failure

Across multiple informant accounts, BUMKAM Hena Ma Swoha locally glossed as working "with a whole heart" was consistently described as inactive for most of the period since 2014. The Deputy Chair of the Bamuskam confirmed it was non-operational, attributing this to administrators lacking seriousness, no entrepreneurial or managerial training, funds withheld by the village government because prior use had not been properly managed, and insufficient human resources capable of running the enterprise.
"[BUMKAM] is currently inactive… [because] the administrators were not serious about managing it, they had never taken part in training to build their entrepreneurial skills, and there was not enough human resources capable of managing BUMKAM." Deputy Chair, Village Consultative Body (Bamuskam), translated from interview notes

The Village Treasurer confirmed documentation existed at the village office, but no financial records had ever been submitted, since no income-and-expenditure report had been prepared. The structure had been reorganized twice; a budget exceeding IDR 50 million was once allocated for equipment and start-up goods but not sustained beyond initial purchases; the enterprise opened to the public only once; and it remained suspended for over a year before the 2025 reorganization.

Three ventures were attempted and discontinued: a refillable drinking-water depot, operating briefly in 2023 before stopping due to operational difficulties; a fish-cage (keramba) aquaculture unit that, by one account, ran only about a week before the fish died, and by another failed due to damaged nets; and a small café/kiosk discontinued mid-operation due to incomplete record-keeping.

Resource Allocation Without Operational Follow-Through
The Village Head, asked specifically about fund disbursement, described a sequence in which BUMKAM had submitted a proposal covering three planned units water production, food and beverage trade, and a marine/tourism unit with profit-and-loss projections for one year. Funds were released on the understanding these units would be implemented.

"At that time they had already prepared a proposal for those three business units, with profit-and-loss projections worked out for one year. It was submitted to me, and I released the funds so each of those planned businesses could run. But once I disbursed the funds, they did not run those businesses they ran a different one instead."Village Head, translated from interview notes

This pattern recurred in 2024, when funds were again provided but the approved activity was not sustained ("it died out midway"). No informant could produce a financial accounting of how the funds were ultimately used.

Post-2025 Reorganization: Concentrated Effort and Structural Ambiguity
Following the 2025 reorganization, BUMKAM's newly appointed Secretary one of eight nominal administrators, most employed outside the enterprise reported responsibilities remained unclear, and that she was in practice the only one actively running its sole activity, a small kiosk/café. She described the unit as village-government funded, with a further unit (a lengthened jetty) still planned, financial archives existing for some periods but not others, and requests for BUMKAM data needing to route through the Chair to the Treasurer.

Customary Boundaries on Institutional Membership
The Village Head reported a proposal to appoint residents of the adjacent Pulau Kosong settlement predominantly migrant, of Butonese descent to BUMKAM leadership, but original Tahima Soroma residents did not permit this, on the grounds that Pulau Kosong residents are settlers. Leadership eligibility was confined to the indigenous population, estimated at ~300 individuals across ~100 households.

Stakeholder Consensus and Emerging Support Plan
At the forum held on 18 July 2026, attended by village officials, BUMKAM management, and guests, participants agreed BUMKAM had not functioned optimally due to weak management and human resources. Discussion converged on evaluating and restructuring leadership; strengthening management and human-resource capacity through comparative study visits; recognizing tourism and MSME development as needing dedicated mentoring; and holding a follow-up meeting on 21 July 2026. The team's program from 20 July 2026 was defined as assisting with BUMKAM's 2025 accountability report (LPJ), drafting an SOP, and mentoring MSME actors.

In the days following, BUMKAM's Chair and several administrators joined KKN students in cleaning and reopening the enterprise's long-dormant café/kiosk — the first instance in the May–July 2026 record of the Chair working alongside other administrators and facilitators on a shared, hands-on task.

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DISCUSSION

Institutional Dormancy as a Readiness Failure, Not Merely an Accountability Failure

The pattern documented above extends institutional capacity theory's account of village-enterprise underperformance (Grindle, 1997; Prabowo & Setyono, 2022) into readiness terms. BUMKAM Hena Ma Swoha did not merely underperform digitally; it had not reached the threshold of institutional readiness at which digital transformation becomes possible (Michelotto & Joia, 2024). Funds were disbursed against an approved, financially projected plan, yet were not applied to it, on two separate funding cycles (2023 and 2024). This is consistent with evidence that formal accountability structures do not by themselves guarantee funds are used as intended, and that perceived misuse specifically erodes public trust (Merawati et al., 2025). It also gives process-level texture to the aggregate "awareness-capability gap" (Abdurokhim et al., 2026), traceable here to a recurring mechanism resource allocation without verified operational follow-through refining SOP presence (Ultari & Khoirunurrofik, 2024) into a precondition for readiness specifically.

Customary Membership Boundaries and the Distribution of Organizational Knowledge

The exclusion of Pulau Kosong residents from BUMKAM leadership illustrates a dynamic in the customary-governance literature: adat authority can provide legitimacy for a dominant group while constraining others' inclusion (Steenbergen, 2016), with effects depending on how authority is structured (Hasanah et al., 2025). Read through absorptive capacity (Cohen & Levinthal, 1990), because organizational knowledge accumulates in those who hold leadership over time, restricting eligibility to a small demographic pool restricts where absorptive capacity for digital knowledge can develop. The eight-person administration functioning through one active member suggests this restriction narrowed an already limited resource pool exactly when the enterprise most needed capacity.

Why Digital Transformation Requires Institutional Readiness First: Evidence from a Critical Case

International evidence indicates digital tool adoption among small enterprises is incremental and capability-dependent (Nadkarni & Prügl, 2021; Kraft et al., 2022), and that knowledge acquisition and readiness are cornerstones of digital transformation (Jewapatarakul & Ueasangkomsate, 2024). The evidence here shows what this means under severe institutional-capacity constraint: an enterprise cannot digitalize processes it is not consistently operating, cannot absorb digital knowledge through a leadership structure with only one functionally active member, and cannot sustain digital tools without accountability infrastructure to track use. As a critical case (Flyvbjerg, 2006), Tahima Soroma shows the mechanisms that keep an enterprise "aware but not capable" (Abdurokhim et al., 2026) for over a decade. Notably, BUMKAM's own stakeholders reached this conclusion independently: the support plan prioritized SOP drafting and accountability assistance ahead of digital-tool training.

An Early, Tentative Signal of Readiness-Building

The café clean-up is a single, recently observed event and should be interpreted cautiously. Read against the human-resource concentration documented above, the Chair's hands-on participation alongside other administrators and facilitators is a departure from the single-administrator dependency pattern since 2025, readable as an early behavioral signal of readiness-building a shift in engagement, not yet capability. Consistent with the literature's emphasis on sustained rather than episodic engagement

(Prabowo & Setyono, 2022; Ultari & Khoirunurrofik, 2024), whether this persists beyond the facilitated KKN period remains open.

Theoretical Synthesis: A Dual-Governance Extension of Readiness Theory.
Read together, the preceding subsections support the conceptual framework and extend it beyond existing readiness models. Such frameworks (Michelotto & Joia, 2024; Jewapatarakul & Ueasangkomsate, 2024) treat readiness as internal to the organization. The evidence here shows that, in an indigenous, dual-governance village enterprise, readiness cannot be fully explained at the organizational level alone: it is co-produced by formal institutional capacity, public accountability practice, and customary governance structures that determine who may hold organizational knowledge in the first place. This is the study's central theoretical contribution not simply that BUMKAM was unready for digital transformation, but that the sources of its unreadiness were only partly organizational, and partly constituted by governance structures outside any single organization's control.

CONCLUSION

This study asked how institutional capacity shapes rural enterprises' readiness for digital transformation and sustainable local economic development under indigenous dual-governance systems, using BUMKAM Hena Ma Swoha as a critical case. The findings show an enterprise effectively dormant since 2014, with two leadership reorganizations, at least three discontinued ventures, and government funds disbursed against an approved plan on two occasions but not applied by its own administrators. Following 2025 reorganization, the enterprise remained dependent on a single active administrator within a leadership pool informally restricted to indigenous residents. A subsequent forum produced consensus on leadership evaluation and capacity building, yielding a sequenced support plan SOP drafting and accountability assistance ahead of digital-tool mentoring followed within days by a joint café clean-up involving the Chair, administrators, and KKN students.

The study's contribution spans three literatures. To institutional capacity theory, it shows BUMKAM's dormancy reflects a repeated disjuncture between resource allocation and operational accountability, sharpened by customary boundaries on leadership. To the digital-transformation and readiness literature, it shows readiness is gated by customary governance and accountability structures rather than a purely internal-organizational property, and that capacity strengthening must precede, not run parallel to, digital-tool adoption. To the sustainable local economic development literature, it clarifies why well-funded digitalization initiatives can fail in institutionally dormant enterprises.

For BUMKAM, this implies institutional strengthening must include an explicit accountability mechanism linking fund disbursement to verified operational use, not only a written SOP, and broadening the human-resource and knowledge base to move beyond single-person dependency. For policy, this case suggests programs for indigenous, dual-governance village enterprises should treat accountability infrastructure and institutional readiness as a precondition for, not a parallel track to, digital transformation, and should assess how customary membership norms shape available human resources before designing digital-literacy interventions.

LIMITATION

This study's findings rest on a single critical case, selected because institutional capacity was severely and persistently constrained; this clarifies preconditions for readiness but limits generalizability without further comparative testing. Interview data were recorded in structured field notes rather than verbatim transcripts and translated from the original

language, which may introduce minor interpretive variation despite triangulation. The café clean-up, discussed as an early readiness signal, reflects a single observed event, and this study cannot determine whether it will persist once KKN facilitation ends. Future research would benefit from longitudinal follow-up and comparative case studies across other indigenous, dual-governance villages.

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DECLARATION OF CONFLICTING INTERESTS
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