

Human Resource Management Practices and the Performance of Village-Owned Enterprises: A Qualitative Study

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Abstract

Purpose: This study aims to provide an in-depth understanding of how Human Resource Management (HRM) practices are enacted within Village-Owned Enterprises (VOE) and how these practices shape organizational performance in a rural context. Specifically, this study seeks to explore the ways in which recruitment practices, competency development, leadership, motivation, and managerial commitment are implemented in the management of VOE and how these practices are experienced by key organizational actors.

Research Methodology: This study employs a qualitative case study approach conducted in selected villages in Lebak Regency, Indonesia. Data were collected through in-depth interviews with VOE managers, village government officials, village supervisory bodies, and district-level officials from the Village Community Empowerment Office, complemented by observations and document analysis.

Results: The findings reveal that VOE performance is constrained by interrelated HRM problems, including non-competency-based recruitment practices, limited training and capacity-building support particularly in core business development and financial management and weak supervisory roles of village institutions. These conditions result in limited managerial competence, weak organizational learning, and reduced accountability.

Conclusions: The study concludes that VOE performance is fundamentally shaped by human resource capacity and governance processes rather than purely financial or structural factors.

Limitations: This study is limited to selected cases in one district and relies on qualitative data, which may limit generalizability.

Contributions: This study contributes to applied management literature by providing contextual qualitative insights into HRM practices in village-owned enterprises and offering practical implications for policy institutions and village managers.

Keywords: *Human Resource Management, Organizational Performance, Qualitative Study, Rural Indonesia, Village-Owned Enterprises*

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1. Introduction

Village-Owned Enterprises (VOE) have emerged as strategic instruments for rural economic development and community welfare in Indonesia, operating as hybrid organizations that pursue both economic and social objectives (Battilana & Lee, 2014; Putra et al., 2025). Consequently, their organizational performance cannot be assessed solely in financial terms but must also consider social value creation and community empowerment. However, empirical evidence indicates that many VOE

continue to experience performance constraints related to managerial capacity and internal governance ([Asmawanti, Fitranita, & Febriani, 2022](#); [Diatmika, Suarmanayasa, & Agung, 2022](#)).

Despite their pivotal role, empirical evidence suggests that the performance of many VOE remains suboptimal. Only a small proportion of VOE could perform successfully enough to generate social and economic benefits ([Kusmulyono, Dhewanto, & Hariadi, 2023](#)). The ups and downs of VOE conditions were caused by many factors, including low managerial capacity, lack of local community empowerment, and suboptimal VOE infrastructure ([Sudirno, Masduki, Suparto, Nahdi, & Sumianto, 2020](#)).

Previous studies report recurring problems such as stagnant business growth, weak managerial capacity, and high dependency on village budget transfers ([Pali, Pasulu, Pasulu, & Tangirung, 2025](#)). While external factors such as regulations and capital availability are frequently discussed, internal organizational factors particularly Human Resource Management (HRM) have received comparatively less scholarly attention. Organizational performance literature consistently emphasizes that effective HRM practices are critical determinants of productivity, sustainability, and competitive advantage across both private and public organizations ([Bake, Utha, Nurwati, Bakti, & Jopang, 2026](#); [Delery & Roumpi, 2017](#)). Prior organizational studies consistently emphasize that human resource management practices play a critical role in shaping organizational performance across private, public, and community-based enterprises ([Chali & Lakatos, 2024](#); [Delery & Roumpi, 2017](#)).

Human resource management refers to a set of integrated practices related to recruitment and selection, training and development, leadership, motivation, and performance appraisal, aimed at enhancing employee capabilities and aligning individual contributions with organizational goals ([Armstrong & Taylor, 2023](#)). In small organizations and community-based enterprises, HRM practices tend to be informal and highly contextual, often shaped by social relations rather than formal managerial principles ([Meurs, Born, Grift, Lycklama à Nijeholt, & Schippers, 2025](#)). This condition is particularly evident in rural enterprises, where limited talent pools and strong social embeddedness influence managerial decisions ([Klotz, Hmieleski, Bradley, & Busenitz, 2014](#)).

In the context of VOE, managerial positions are frequently assigned based on social proximity or political considerations rather than professional competence, while systematic training and performance evaluation mechanisms remain underdeveloped ([Kurniasih & Setyoko, 2019](#)). Such conditions potentially hinder organizational learning and weaken accountability, thereby affecting overall performance. However, existing studies on VOE primarily adopt quantitative approaches focusing on financial outcomes, governance structures, or policy effectiveness ([Ihemeje & Afegbua, 2020](#)). These studies often overlook the everyday managerial processes and human interactions through which organizational performance is produced and sustained.

To address this gap, this study adopts a qualitative approach to explore how human resource management practices influence the performance of Village-Owned Enterprises. Drawing on a case study design, this research examines HRM practices as socially constructed processes embedded within the unique institutional, cultural, and administrative context of rural Indonesia. By focusing on key HRM dimensions recruitment, competency development, leadership, motivation, and managerial commitment this study offers a process-based understanding of how HRM practices contribute to organizational performance beyond formal structures.

This study contributes to the literature in three important ways. First, it develops a processual understanding of HRM practices in village-owned enterprises, highlighting how recruitment, competency development, and supervision interact to shape organizational performance. Second, the study proposes a causal mechanism linking HRM practices to performance outcomes, where non-competency-based recruitment leads to low managerial capability, which in turn constrains organizational learning and performance. Third, the findings extend HRM and hybrid organization literature by demonstrating that HRM practices in rural enterprises are highly socially embedded,

thereby challenging universalistic HRM assumptions and emphasizing the need for context-sensitive approaches.

2. Literature Review

2.1 Village-Owned Enterprises and Organizational Performance

Village-Owned Enterprises are institutional innovations introduced to strengthen village economic capacity and reduce rural poverty. As mandated by Indonesia's Village Law, VOE function as village-level enterprises that manage local resources and deliver both economic and social value ([Rares, Mamentu, & Londa, 2023](#)). Unlike purely commercial organizations, VOE operate within a hybrid organizational model that combines profit-oriented activities with community development objectives ([Battilana & Lee, 2014](#)). Organizational performance in village-owned enterprises should be understood as a multidimensional construct encompassing both economic and social outcomes ([Asmawanti et al., 2022](#); [Putra et al., 2025](#)).

Prior studies suggest that VOE performance should be assessed not only through financial indicators such as revenue growth and contribution to village income but also through non-financial dimensions, including service quality, organizational sustainability, accountability, and social benefits for the community ([Basri, Gusnardi, Nurmayanti, Julina, & Indrapraja, 2026](#)). However, empirical findings indicate that many VOE struggle to achieve sustainable performance due to managerial weaknesses, limited organizational capacity, and dependence on government funding ([Rares et al., 2023](#)). While governance structures and external support are frequently cited as explanatory factors, internal organizational processes remain insufficiently explored. This limitation highlights the need to examine the internal drivers of performance, particularly those related to human resources as the core actors in managing village enterprises.

2.2 Human Resource Management Practices and Organizational Performance

Human Resource Management (HRM) refers to a set of integrated practices designed to attract, develop, motivate, and retain employees in order to achieve organizational goals ([Armstrong & Taylor, 2023](#)). Strategic human resource management literature argues that recruitment, training, leadership, and motivation are fundamental mechanisms linking human capital to organizational performance ([Chourasia & Bahuguna, 2025](#); [Delery & Roumpi, 2017](#)). Human Resource has an important role in improving employee performance through a transparent performance appraisal system that fulfills employee rights ([Harahap, Yudianti, Erna, & Nururly, 2023](#)). The effective human resource management, as evidenced by recruitment practices, training, employee development, and performance evaluation, can markedly enhance operational efficiency and organizational effectiveness.

Empirical studies in Indonesia reveal that weaknesses in managerial capacity, limited innovation, and weak accountability mechanisms remain major challenges for VOE sustainability ([Diatmika et al., 2022](#); [Nugrahaningsih et al., 2022](#)). Human resources are the core obstacle contributing to VOE under performance ([Rahmawati, Ella, Andari, & Hilmiati, 2024](#)). One of three factors that determine the productivity of Township and Village Enterprises in China is namely human resources ([Zheng, Batuo, & Shepherd, 2017](#)). Employee recruitment has a significant positive effect on the commitment and performance of VOE ([Zalukhu, Hendriani, & Fitri, 2020](#)).

Extensive empirical evidence from private firms and public organizations demonstrates that HRM practices such as merit-based recruitment, training and development, leadership development, performance appraisal, and motivation systems are positively associated with organizational performance and sustainability ([Yuswardi, Asri, & Saputra, 2025](#)). In small and medium-sized enterprises, HRM practices tend to be informal but remain critical in shaping organizational effectiveness, particularly in resource-constrained environments. VOE managers do not have sufficient experience in managing business entities. Managers also do not have education that is in line with and adequate for their duties. The management of the VOE is not yet efficient, and the Overall Goal Achievement in improving community welfare has not been significant ([Hidayat, Amalia, & Fitri, 2024](#)).

However, HRM implementation in community-based and rural organizations faces distinct challenges. Limited access to skilled labor, strong social embeddedness, and informal governance often shape HR decisions, potentially reducing professionalism and accountability ([Klotz et al., 2014](#)). These characteristics suggest that conventional HRM models may not be fully applicable without contextual adaptation. In small and medium-sized enterprises, HRM practices are often informal yet remain decisive for organizational effectiveness, particularly under conditions of resource constraints ([Meurs et al., 2025](#); [Novo Melo, Machado, & Brewster, 2022](#)).

2.3 Human Resource Management in Village-Owned Enterprises

In the context of VOE, HRM practices are frequently underdeveloped and inconsistently applied. Managerial positions are often appointed through social or political considerations rather than competency-based selection, while training opportunities and performance evaluation mechanisms remain limited ([Kurniasih & Setyoko, 2019](#)). As a result, VOE managers typically rely on experiential learning and personal commitment rather than structured managerial systems.

Studies on village-owned enterprises indicate that HRM practices tend to be underdeveloped, with recruitment frequently driven by social proximity rather than competence and training programs remaining limited ([Asmawanti et al., 2022](#); [Nugrahaningsih et al., 2022](#)). Existing studies on VOE tend to prioritize governance arrangements, financial performance, or policy implementation, often employing quantitative approaches ([Ihemeje & Afegbua, 2020](#)). While such studies provide important insights, they offer limited understanding of how HRM practices are enacted in daily organizational life and how these practices shape performance outcomes.

Qualitative approaches remain scarce, particularly those that explore HRM as a socially embedded and process-oriented phenomenon in village enterprises. This gap is significant given the hybrid nature of village enterprises further complicates HRM implementation, as managers must balance economic efficiency with social legitimacy and community expectations ([Battilana & Lee, 2014](#); [Belte, 2022](#)). A deeper qualitative exploration is therefore necessary to understand how HRM practices operate in practice and how they contribute to organizational performance in rural settings.

2.4 Research Gap

Based on the existing literature, three key gaps can be identified. First, research on VOE performance has largely emphasized structural and financial dimensions, overlooking the role of human resource management as an internal performance driver. Second, HRM studies have rarely focused on village-owned enterprises as a distinct organizational form. Third, qualitative, process-based investigations that capture the lived experiences of VOE managers and stakeholders remain limited. To address this gap, this study adopts a qualitative approach to explore how HRM practices influence the performance of VOEs. By focusing on recruitment, competency development, leadership, motivation, and managerial commitment, the study provides a process-based understanding of how performance is socially constructed in rural enterprises.

2.5 Research Framework

This study proposes a conceptual framework in which HRM practices influence organizational performance through a sequential process. Recruitment practices determine the level of managerial competence, which in turn shapes organizational learning processes. These learning processes ultimately affect organizational performance. In addition, the relationship between HRM practices and performance is influenced by institutional factors, particularly training support from the Village Community Empowerment Office and supervision by village authorities. These factors act as moderators that strengthen or weaken the effectiveness of HRM practices. The detailed research framework can be seen in Figure 1.

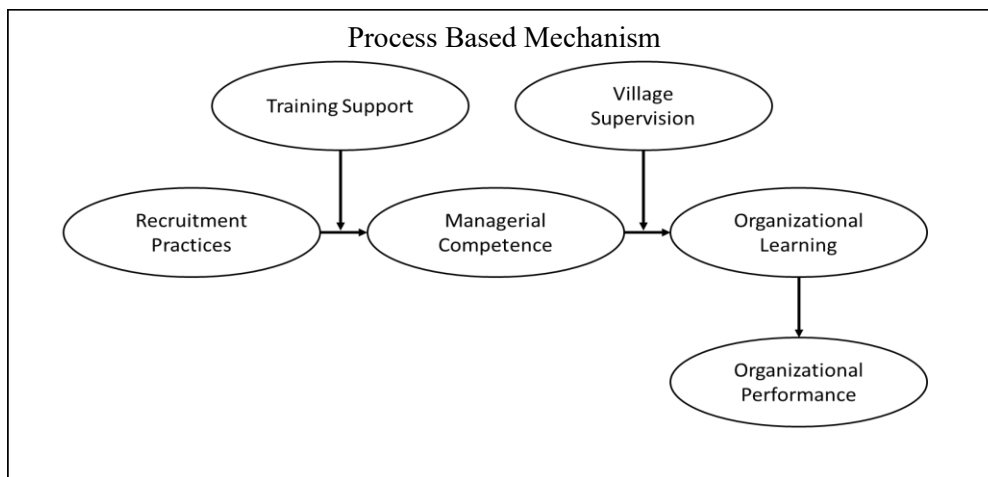


Figure 1. HRM framework for village owner's enterprises

3. Methodology

3.1 Research Approach and Design

This study adopts a qualitative case study approach to explore socially embedded Human Resource Management (HRM) practices and their influence on organizational performance within Village-Owned Enterprises (VOEs). A qualitative approach is appropriate as the study aims to understand meanings, processes, and contextual dynamics underlying organizational performance rather than to test hypotheses or establish statistical relationships (Creswell & Poth, 2024; Yin, 2018).

The case study design allows for an in-depth and contextualized examination of HRM practices within real-life organizational settings. VOEs are treated as embedded cases situated within specific village governance structures and socio-cultural environments. This design enables the researcher to capture complex managerial processes and performance dynamics as experienced by key organizational actors (Yin, 2018).

3.2 Research Site and Context

The study was conducted in selected villages in Lebak District, Indonesia, focusing on VOE with varying levels of organizational performance. The selection of research sites was based on the presence of active VOE and the variation in business characteristics, organizational maturity, and managerial arrangements. This variation was intended to enrich the data and enable comparative insights across different VOE contexts, thereby enhancing the robustness and transferability of the findings.

3.3 Selection of Informants

This study employed purposive sampling to select informants who possess rich knowledge, direct involvement, and decision-making roles related to the management and development of Village-Owned Enterprises (VOE). The selection of informants was guided by their functional positions, experiential knowledge, and relevance to the research focus on Human Resource Management (HRM) practices and organizational performance. Data collection continued until theoretical saturation was reached, when no new significant insights emerged from additional interviews (Basnyat & Clarence Lao, 2020).

A total of twelve informants were selected, consisting of VOE directors, village heads, and officials from the *Dinas Pemberdayaan Masyarakat dan Desa* (DPMD). These informants represent both internal organizational actors and external institutional stakeholders, allowing for a comprehensive understanding of HRM practices and their broader governance context. Each interview lasted approximately 60 minutes, allowing sufficient time to explore the informants' experiences and perspectives in depth. These informants were considered appropriate because they possessed practical and institutional knowledge regarding recruitment practices, training and capacity-building activities, supervision mechanisms, managerial constraints, and the performance of VOE. Table 1 presents the profile of informants involved in this study.

Table 1. Profile of informants

Code	Position	Institution
I-1	Head of the Village Community Empowerment Service.	DPMD
I-2	Secretary of the Village Community Empowerment Service.	DPMD
I-3	Head of the Village Community Finance Division	DPMD
I-4	Head of the Village Community Empowerment Division	DPMD
I-5	Director of VOE – Village A	VOE
I-6	Director of VOE – Village B	VOE
I-7	Director of VOE – Village C	VOE
I-8	Director of VOE – Village D	VOE
I-9	Head of Village – Village A	Village Government
I-10	Head of Village – Village B	Village Government
I-11	Head of Village – Village C	Village Government
I-12	Head of Village – Village D	Village Government

Table 1 show informants contributed perspectives on regulatory frameworks, capacity-building policies, guidance and supervision mechanisms, and institutional support related to VOE development. Their inclusion allowed the study to explore how HRM practices at the organizational level intersect with district-level empowerment strategies and administrative expectations. Data collection continued until theoretical saturation was achieved, indicated by the repetition of themes and the absence of new significant insights emerging from additional interviews ([Basnyat & Clarence Lao, 2020](#)).

3.4 Data Collection Techniques

To enhance credibility, this study applied data triangulation by combining interviews, observations, and document analysis. Additionally, member checking was conducted by allowing selected informants to review key interpretations. Dependability was ensured through systematic documentation of data collection and analysis procedures, while confirmability was supported by maintaining an audit trail and reflexive notes to minimize researcher bias.

3.5 Data Analysis

Data were analyzed using thematic analysis following the six-step procedure proposed by Braun and Clarke. Data were analyzed using thematic analysis to identify patterns and meanings across informants' experiences ([Braun & Clarke, 2006](#)). The analysis began with data familiarization through repeated reading of interview transcripts and field notes. Subsequently, initial codes were generated inductively to capture meaningful data segments related to HRM practices and organizational performance. Codes were then grouped into broader categories to identify emerging themes. During this process, the study combined inductive coding with sensitizing concepts derived from the conceptual framework, such as recruitment, competency development, and supervision. This approach allowed both data-driven insights and theory-informed interpretation.

To enhance analytical rigor, coding was conducted manually and iteratively, with constant comparison across interviews to identify similarities and variations in informants' experiences. The themes were reviewed and refined to ensure internal coherence and external distinction. Representative quotations were selected to support each theme and to maintain a close connection between empirical data and interpretation. Finally, the identified themes were interpreted in relation to existing literature and the proposed conceptual framework to develop a process-based explanation of how HRM practices influence VOE performance.

3.6 Trustworthiness of the Study

To ensure the rigor and trustworthiness of the study, several strategies were employed based on criteria proposed by ([Lincoln, 1985](#)):

1. Credibility was enhanced through triangulation of data sources (interviews, observations, and documents) and informant perspectives.
2. Transferability was supported by providing rich, thick descriptions of organizational context and managerial practices.
3. Dependability was addressed through systematic documentation of research procedures and analytical decisions.
4. Confirmability was ensured by maintaining reflexive field notes and grounding interpretations in empirical evidence.

3.7 Ethical Considerations

Ethical considerations were carefully addressed throughout the research process. Informants were informed about the purpose of the study and provided consent prior to participation. Anonymity and confidentiality were maintained by removing identifiable personal and organizational information from transcripts and reports. Informants were also given the opportunity to review and clarify their statements when necessary.

4. Results and Discussion

This study reveals several major findings related to the implementation of human resource management practices and their implications for the performance of VOE. Overall, the findings indicate that weaknesses in human resource capacity are closely linked to recruitment practices, limited training support, and the weak role of village supervision, which collectively constrain organizational performance.

4.1 Results

4.1.1 Limited Competent Human Resources Due to Inadequate Recruitment Practices

The findings show that recruitment practices in VOE are largely informal and socially driven, resulting in limited managerial and technical competence, a pattern commonly observed in rural and community-based enterprises ([Nugrahaningsih et al., 2022](#)). Recruitment processes are generally informal and rarely based on competency requirements aligned with the core business of VOE. Instead, recruitment decisions are often influenced by social considerations, personal trust, and proximity to village authorities. Recruitment practices are often influenced by direct appointment from village authorities rather than formal selection processes. Recruitment processes often lack formal procedures and are instead initiated by village leadership. As noted by some informants:

“The village head directly asked me to become the Director of the VOE. However, I requested that the Village Head hold a Village Deliberation to ensure my appointment complies with existing regulations” (VOE Director).

“The village head directly asked me to become the Director of the VOE because the previous Director was unable to continue his duties due to certain circumstances, even though his term had not yet expired. Therefore, my appointment was not through an election through a Village Deliberation, as it should have been” (VOE Director).

This statement indicates that the limited availability of training is not only experienced at the organizational level but is also recognized at the institutional level, highlighting gaps in capacity-building implementation. In practice, recruitment processes in VOEs are rarely grounded in clearly articulated competency requirements aligned with the core business needs of the organization. Instead, recruitment decisions are frequently influenced by social considerations, such as personal trust, kinship ties, and proximity to village authorities. Such socially embedded recruitment practices are common in small and community-owned organizations, where informal governance structures and local norms strongly shape managerial decisions ([Hotho, Minbaeva, Muratbekova-Touron, & Rabbiosi, 2020](#)). While these practices may foster social cohesion and mutual trust, they often constrain professional capacity development and limit the organization’s ability to adopt standardized management and financial reporting practices in the long term ([Rauch, Wiklund, Lumpkin, & Frese, 2009](#)).

As a result, many VOE managers and staff lack the managerial, entrepreneurial, and administrative skills required to operate village enterprises sustainably. Informants frequently described situations in which individuals were appointed despite having limited experience in business management, financial administration, or marketing. This condition led to role ambiguity, low confidence in decision-making, and heavy dependence on a small number of individuals within the organization. From a performance perspective, inadequate recruitment practices resulted in operational inefficiencies and constrained the ability of VOE to expand or diversify their business units. The absence of clear competency criteria during recruitment also weakened accountability, as performance expectations were not clearly defined at the outset of managerial appointments ([Zakiah & Windasari, 2026](#)).

4.1.2 Insufficient Training and Capacity Building from the Village Community Empowerment Office

Another major finding concerns the lack of systematic training and capacity-building support, particularly from the Village Community Empowerment. Informants consistently reported that training opportunities related to core business development, organizational management, and financial reporting were limited, irregular, and insufficient to address the complex challenges faced by VOE. In many cases, training programs when available were described as general and administrative in nature, rather than tailored to the specific business characteristics and developmental stages of VOE. Managers expressed particular difficulties in understanding financial governance, bookkeeping standards, and financial accountability mechanisms required for transparent reporting to village governments. The findings indicate that VOE managers and staff face significant challenges due to the absence of formal training, particularly in financial management and reporting. Many informants reported that they had to rely on self-learning to perform their managerial duties. A representative from the Village Community Empowerment Office (DPMD) stated:

“We acknowledge that VOEs in Lebak rarely participate in training, whether related to VOE management or financial reporting. Last year, there was only one training session on financial reporting conducted by a university in Banten. Going forward, we hope to collaborate with several universities in Banten to provide training for VOE through community service programs.” (Head of Division, DPMD)

A similar concern was expressed by another informant, who stated:

“At the beginning of my tenure, none of the staff understood finance because they had not received any training related to the management and financial reporting of VOE. I studied accounting on my own for almost a month before I was finally able to guide the treasurer. However, to date, I have not received any formal training” (VOE Director).

Another informant stated:

“Since becoming Director, I have not received any formal training related to governance and financial management of VOE. I plan to attend financial management training in the near future.” (VOE Director).

These findings illustrate that the lack of structured training and capacity-building support forces VOE managers to rely on informal learning processes, which may limit the effectiveness and sustainability of organizational practices.

Limited access to structured training and capacity-building, particularly in financial management and core business development, weakens organizational learning and sustainability ([Chali & Lakatos, 2024](#); [Novo Melo et al., 2022](#)). Consequently, VOE relied heavily on trial-and-error approaches, which increased operational risks and weakened sustainability. These findings suggest that the absence of continuous and targeted capacity-building initiatives from DPMD significantly affects the quality of human resource practices and, ultimately, organizational performance.

4.1.3 Weak Supervisory Role of Village Oversight Bodies and Village Apparatus

The study also identified the limited role of village supervisory bodies and village apparatus as a critical institutional constraint affecting VOE performance. Although supervisory mechanisms formally exist, their implementation is often symbolic rather than substantive. Supervision tends to focus on administrative compliance rather than providing strategic guidance, performance feedback, or problem-solving support.

The findings also indicate that supervision by village oversight bodies, particularly the Village Consultative Body, is relatively limited in terms of providing feedback and guidance. Although reporting mechanisms formally exist, supervisory engagement tends to be passive and procedural. As one VOE Director explained:

“The Village Consultative Body, as the supervisor of the VOE, regularly receives reports from the Director of the VOE. However, feedback on these reports is rare. Input and suggestions from the BPD tend to occur during village deliberations and are more common during planning activities” (VOE Director).

Informants reported that village supervisors and apparatus rarely engaged actively in monitoring HRM practices, evaluating managerial performance, or facilitating capacity development. This lack of effective supervision reduced opportunities for organizational learning and early detection of operational problems. In some cases, weak oversight allowed ineffective management practices to persist without corrective intervention. Weak supervisory mechanisms reduce accountability and undermine managerial motivation, especially in organizations where intrinsic motivation plays a dominant role ([Battilana & Lee, 2014](#)).

The absence of clear supervisory direction also affected the motivation and commitment of VOE managers. Without consistent feedback, recognition, or accountability mechanisms, managerial efforts were perceived as undervalued, leading to reduced work motivation and organizational commitment.

4.1.4 Implications for Organizational Performance

Taken together, these findings illustrate how deficiencies in recruitment, training, and supervision collectively shape the performance of VOE. Weak human resource capacity limited business innovation and financial accountability, while insufficient institutional support and oversight constrained organizational sustainability. Performance, therefore, emerged not only as an economic issue, but also as a reflection of broader human resource and governance processes. From a qualitative perspective, organizational performance was understood by informants as an ongoing struggle to balance expectations, limited competencies, and institutional constraints. This highlights the central role of human resource management practices as a foundational element in strengthening the performance and resilience of Village-Owned Enterprises.

4.2 Discussion

This study aims to explore how Human Resource Management (HRM) practices shape the performance of Village-Owned Enterprises (VOEs) within a rural and institutional context. The findings indicate that organizational performance in VOEs is primarily constrained by three interrelated HRM issues: informal recruitment practices, limited capacity-building support, and weak supervision mechanisms. These findings reinforce the argument that performance in village enterprises is fundamentally a human and managerial issue rather than merely a financial or structural one ([Yulianto, Setiadi, Miswanto, & Ismail, 2025](#)).

From a theoretical perspective, these findings reinforce the central argument in strategic HRM literature that organizational performance depends on the alignment between HRM practices and organizational needs. However, this study extends prior literature by demonstrating that HRM practices in VOEs are not formal or system-driven, but rather socially embedded, informal, and context-dependent. This shift highlights that HRM effectiveness in rural enterprises cannot be fully explained using universalistic models, but requires a contingency-based and process-oriented perspective.

4.2.1 Recruitment Practices and the Reproduction of Low Managerial Capacity

The findings reveal that recruitment practices within VOEs are predominantly driven by social proximity, trust, and familiarity rather than competency considerations. This pattern reflects the logic of social embeddedness, where economic decisions are influenced by social relationships and informal norms rather than formal rationality. From the perspective of human capital theory, recruitment is a critical mechanism for acquiring organizational capabilities. The absence of competency-based recruitment undermines the accumulation of valuable human capital, thereby reducing organizational effectiveness. This pattern aligns with prior studies on community-based and rural organizations, which show that socially embedded recruitment often limits the quality of human capital and weakens professional standards ([Yudhistira & Daryana, 2024](#)). From a strategic HRM perspective, the absence of competency-based recruitment undermines the alignment between organizational roles and individual capabilities, which is critical for achieving sustainable performance ([Triolita, Munawaroh, Nurhasanah, & Al-Amin, 2025](#)).

At the same time, the findings challenge universalistic HRM assumptions, which suggest that standardized best practices can be applied across contexts. In VOEs, recruitment decisions are constrained by limited labor markets, local political dynamics, and community expectations. This indicates that HRM effectiveness is contingent upon contextual realities, consistent with contingency theory. As a result, VOE managers often lack essential managerial, financial, and entrepreneurial competencies. This condition leads to reliance on trial-and-error learning and creates a self-reinforcing cycle of low performance, where weak recruitment leads to low competence, which in turn limits innovation and organizational growth. Therefore, recruitment practices function not only as an operational activity but as a foundational process shaping the long-term performance trajectory of VOEs.

4.2.2 Limited Capacity Building and the Absence of Organizational Learning

The study also highlights the limited availability and effectiveness of training and capacity-building initiatives, particularly those provided by the DPMD. Training programs are often sporadic, generic, and administrative in nature, rather than tailored to the specific needs of VOEs. From a human capital theory perspective, continuous investment in skills and knowledge is essential for enhancing organizational adaptability and performance. This finding resonates with human capital theory, which emphasizes that continuous skill development is essential for enhancing organizational adaptability, especially in resource-constrained environments ([Delery & Roumpi, 2017](#)). The lack of systematic capacity building restricts the development of managerial competence, which is critical for managing complex business and governance demands.

More importantly, this finding can be interpreted through the lens of organizational learning theory, which emphasizes the transformation of individual knowledge into collective organizational capabilities. In the absence of structured training and learning mechanisms, VOEs rely on experiential and trial-and-error processes, which are inefficient and often fail to generate sustainable improvements. This study therefore extends existing literature by demonstrating that organizational learning serves as a mediating mechanism between HRM practices and performance outcomes. Without adequate training support, managerial competence cannot evolve into institutionalized knowledge and effective organizational routines.

Furthermore, the findings reveal that limitations in capacity building are also shaped by institutional constraints at the district level, including limited resources and administrative burdens. Importantly, the policy-level narratives from DPMD officials indicate that these capacity-building limitations are not solely due to lack of awareness, but also reflect institutional constraints such as budget limitations and the need to oversee numerous villages simultaneously ([Ningrum & Irawati, 2025](#)). This reflects a broader multi-level governance problem, where policy-level intentions are not effectively translated into organizational-level outcomes. The misalignment between capacity-building needs and implementation capacity highlights the importance of integrating HRM practices with institutional support systems.

4.2.3 Weak Village Supervision and the Erosion of Accountability and Motivation

Another key finding of this study is the limited effectiveness of village-level supervision. Although formal oversight mechanisms exist, supervision is largely administrative and compliance-oriented, rather than developmental. This finding supports previous research suggesting that weak governance and oversight mechanisms reduce accountability and hinder organizational learning in public and social enterprises ([Battilana & Lee, 2014](#)). From a governance perspective, effective supervision should function as a mechanism for ensuring accountability, providing strategic direction, and facilitating organizational learning. However, in the context of VOEs, supervision rarely extends beyond formal reporting requirements, limiting its contribution to performance improvement.

This finding is consistent with agency theory, which suggests that weak monitoring mechanisms reduce accountability and allow inefficiencies to persist. Without effective oversight, managers face limited external pressure to improve performance, leading to organizational stagnation. At the same time, the findings highlight the importance of motivation theory in understanding managerial behavior. In organizations where financial incentives are limited, intrinsic motivation such as recognition, feedback, and sense of purpose becomes critical. The absence of constructive supervision reduces these motivational drivers, leading to declining managerial commitment and engagement. Motivation theory in public and social organizations emphasizes the importance of recognition, feedback, and a sense of purpose in sustaining performance where financial incentives are limited ([Welbeck & Thelma, 2026](#)). From a hybrid organization perspective, VOEs must balance economic objectives with social legitimacy. Weak supervision undermines this balance by failing to provide guidance on both financial performance and social accountability. As a result, supervision should be reconceptualized not merely as control, but as a developmental and relational process that supports HRM practices and organizational performance.

4.2.4 Organizational Performance as a Processual and Contextual Outcome

One of the key theoretical contributions of this study lies in its conceptualization of organizational performance as a processual and context-dependent outcome. Rather than being viewed as a static result of financial inputs, performance in VOEs emerges from the interaction between HRM practices, managerial competence, organizational learning, and institutional support. This finding aligns with Resource-Based View (RBV) and organizational learning theory, which emphasize that sustainable performance is driven by intangible resources such as knowledge, skills, and organizational capabilities. However, this study extends these perspectives by demonstrating that such resources are constructed through informal, socially embedded HRM processes in rural contexts.

Furthermore, the results support a contingency perspective, indicating that the effectiveness of HRM practices depends on contextual factors, including institutional support (training) and governance mechanisms (supervision). Taken together, the findings suggest that organizational performance in VOEs is not the result of isolated factors, but of interdependent processes involving recruitment, competence development, learning, and institutional context. This reinforces the importance of adopting a process-based and multi-level analytical framework in studying rural enterprises.

4.2.5 Theoretical and Practical Implications

This study contributes to HRM and organizational theory in several ways. First, it extends strategic HRM literature by demonstrating that HRM practices in rural and community-based enterprises are informal and socially embedded, challenging universalistic assumptions about standardized best practices. Second, the study advances organizational learning theory by identifying learning as a critical mediating mechanism between HRM practices and performance. Third, it contributes to hybrid organization theory by highlighting the complexities of managing enterprises that operate at the intersection of economic and social goals. Finally, the study supports a contingency-based perspective, emphasizing that HRM effectiveness depends on contextual alignment rather than the adoption of generic practices.

5. Conclusions

5.1 Conclusion

This study explored how Human Resource Management (HRM) practices shape the performance of Village-Owned Enterprises (VOE) within a rural and institutional context. Using a qualitative case study approach, the study reveals that performance challenges faced by VOE are closely linked to foundational human resource issues rather than solely financial or structural limitations. The findings demonstrate that inadequate recruitment practices, characterized by socially driven and non-competency-based selection, have resulted in limited managerial and technical capacity within VOE. This condition constrains organizational effectiveness and reproduces low performance trajectories. In addition, the study highlights the lack of systematic training and capacity-building support, particularly in relation to core business development and financial management. Insufficient capacity-building initiatives from the DPMD have weakened organizational learning and limited the professional development of VOE managers.

Furthermore, the study identifies the weak supervisory role of village oversight bodies and village apparatus as a critical institutional gap. Supervision has largely focused on administrative compliance rather than performance improvement, feedback, and human resource development. As a result, accountability mechanisms remain weak, and managerial motivation and commitment are undermined. These interconnected conditions illustrate that VOE performance emerges as a processual and contextually embedded outcome, shaped by everyday HRM practices, institutional support, and governance dynamics. Overall, this study reinforces the view that organizational performance in village-owned enterprises is fundamentally shaped by human resource management practices and governance processes rather than purely financial inputs.

Theoretically, this study contributes to applied management and HRM literature by extending the understanding of HRM practices into the underexplored context of village-owned enterprises. By adopting a qualitative and interpretive perspective, the study demonstrates that HRM functions as a socially embedded process that cannot be fully captured through standardized or purely quantitative models. Organizational performance in hybrid rural enterprises must therefore be understood through both economic and social dimensions. Practically, the findings underscore the importance of strengthening HRM as a strategic foundation of VOE development. Village governments and DPMD are encouraged to promote competency-based recruitment, provide continuous and context-specific capacity-building programs, and reinforce active and developmental supervision mechanisms. Strengthening these human resource dimensions is essential for enhancing the performance, sustainability, and social legitimacy of Village-Owned Enterprises.

5.2 Research Limitations

This study has several limitations that should be acknowledged. First, the research focuses on a limited number of cases within a single district (Lebak Regency), which may restrict the generalizability of the findings to other regions with different institutional and socio-economic conditions.

Second, the study relies on qualitative data derived from interviews, observations, and document analysis. While this approach enables in-depth insights into HRM practices and organizational dynamics, it is inherently subjective and dependent on informants' perspectives and interpretations. Third, the study primarily focuses on internal HRM practices and selected institutional factors, without extensively examining external determinants such as market conditions, financial access, or regulatory variations that may also influence VOE performance.

5.3 Suggestions and Directions for Future Research

Future research can build upon this study in several important ways. First, comparative studies across different regions or provinces are recommended to examine how variations in institutional contexts, governance structures, and socio-cultural factors influence HRM practices and organizational performance in VOEs. Second, future studies may adopt mixed-method approaches by combining qualitative insights with quantitative data to test and validate the proposed process-based mechanism linking HRM practices, organizational learning, and performance outcomes. Third, further research is encouraged to explore additional factors that may shape VOE performance, such as financial

management systems, market competitiveness, digitalization, and inter-organizational collaboration. Finally, longitudinal research designs would be valuable in capturing the dynamic evolution of HRM practices and organizational performance over time, particularly in understanding how policy interventions and capacity-building programs influence long-term sustainability.

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Author Contributions

AP contributed to the conceptualization, methodology design, data collection, coding, manuscript drafting, and revision of the manuscript. YHW was responsible for the conceptualization, methodology design, coding, manuscript drafting, revision, and supervision of the research. RTH contributed to methodology design, data collection, coding, manuscript drafting, and final approval of the manuscript. Each author played a significant role in ensuring the quality and integrity of the research.

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