Available online at: http://jurnal.utu.ac.id/jppolicy

Jurnal Public Policy

| ISSN (Print) 2477-5738 | ISSN (Online) 2502-0528 |

# Governance Failure in Village-Owned Enterprises: Formal–Informal Institutional Dynamics and Village Business Performance

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ARTICLE INFORMATION

Received: January 05, 2026
Revised: March 31, 2026
Accepted: June 27, 2026
Available online: July 20, 2026

KEYWORDS

Governance failure; BUM Desa; Formal institutions; Informal Institutions; Village governance

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ABSTRACT

This study aims to analyze how interactions between formal and informal institutions generate governance failure in the management of Village-Owned Enterprises (BUM Desa) and explain variations in village business performance. Employing a qualitative multiple-case study design, the research was conducted in five villages in Mamuju Tengah Regency, Indonesia. Data were collected through in-depth interviews, document analysis, non-participant observation, and process tracing, and analyzed using thematic coding, process tracing, and cross-case comparison. The findings show that although formal governance instruments such as village regulations, bylaws, standard operating procedures, and accountability mechanisms are formally established, they are systematically undermined by dominant informal institutions, including patronage networks, kinship relations, elite control, and norms discouraging criticism. This institutional misalignment distorts decision-making, weakens accountability, and limits transparency, resulting in poor business planning and stagnation of BUM Desa business units. Cross-case analysis further reveals that governance outcomes are contingent rather than uniform, mediated by leadership style, administrative capacity, legal readiness, and social capital, which shape the balance between formal and informal institutions. The study concludes that governance failure in BUM Desa is driven less by technical or managerial deficiencies than by the dominance of informal institutions over weakly enforced formal rules. These findings underscore the importance of institutional reforms that address informal power relations and leadership accountability to strengthen village economic governance.

## INTRODUCTION

Rural development in Indonesia has undergone a significant transformation since the enactment of Law Number 6 of 2014 on Villages, which provides greater autonomy for villages to manage local economic potential through expanded self-governance, adequate fiscal support, and institutional innovations that are more responsive to community needs. This policy represents a paradigm shift in rural development from state-led development toward community-driven development, positioning villages as central actors in decision-making over their assets and local resources (Kayupa et al., 2025; Muh. Syata, 2024). Through the establishment of Village-Owned Enterprises (BUM Desa), this approach is expected to stimulate productive economic activities, generate employment opportunities, and create added value for local communities. However, evidence from various regions indicates that the success of BUM Desa is not solely determined by the availability of capital or regulatory support, but is also shaped by governance structures, social dynamics, and the relative strength of formal and informal institutions operating at the village level (Scott, 2001).

This condition is clearly observable in Mamuju Tengah Regency, West Sulawesi. Although, from a formal–administrative perspective, almost all villages have established BUM Desa, not all of them are able to function effectively as drivers of local economic development. The majority of villages remain classified as developing or disadvantaged, reflecting a significant gap between the expected institutional capacity and the realities on the ground. According to the 2024 report of the Village Community Empowerment Agency of Mamuju Tengah Regency, overall village development has shown signs of deceleration. This situation indicates that strengthening the village economy through BUM Desa requires a more comprehensive approach, including a deeper understanding of the institutional factors that shape BUM Desa performance.

**Table 1.** Village Status in Mamuju Tengah Regency

| Village Status Category | Number of Villages |
|---|---|
| Independent | 5 |
| Advanced | 9 |
| Developing | 32 |
| Disadvantaged | 7 |
| Severely Disadvantaged | 1 |
| Total | 54 villages |

*Source: Village Community Empowerment Agency (PMD) of Mamuju Tengah Regency (2024)*

Table 1 indicates that the majority of villages in Mamuju Tengah remain in developing or disadvantaged categories, suggesting that existing village economic institutions, including BUM Desa, have not functioned effectively as drivers of local economic transformation. Rather than reflecting purely economic constraints, this pattern points to underlying governance challenges, particularly the limited capacity of village institutions to translate formal mandates into effective economic outcomes.

The issue becomes more complex when considering the legal status of BUM Desa. Legalization is not merely an administrative requirement, but a critical foundation for business sustainability, as it directly affects opportunities for collaboration, access to capital, and the positioning of BUM Desa within the village economic ecosystem. Only a small proportion of BUM Desa have obtained legal entity status, while the majority remain in the application process, face verification constraints, or have yet to

https://doi.org/10.35308/jpp.v12i3.14538

initiate registration. This situation reflects the presence of structural barriers in BUM Desa governance, including limited legal awareness, weak administrative capacity, and varying levels of political commitment at the village level.

**Table 2.** Legal Status of BUM Desa in Mamuju Tengah Regency

| Legal Status of BUM Desa | Percentage |
|---|---|
| Registered as a Legal Entity | 11% |
| In the Registration Process | 46% |
| Experiencing Registration Issues | 30% |
| Not Yet Registered | 13% |
| **Total** | **100%** |

*Source: Village Community Empowerment Agency (PMD) of Mamuju Tengah Regency (2024)*

Table 2 shows that only a small proportion of BUM Desa have obtained formal legal status, while the majority remain in transitional or incomplete stages of registration. This condition reflects more than administrative delay; it indicates weak institutional capacity and limited enforcement of formal governance rules. The low level of legal formalization suggests that formal institutional arrangements are not effectively internalized in practice, thereby constraining organizational legitimacy, accountability, and the ability of BUM Desa to operate as formal economic entities. This situation is consistent with the findings of Fitriani et al. (2024) and Kusdiyanto & Pahlevy (2024), who report that many BUM Desa in Indonesia fail to expand their business activities due to the absence of strong legal structures and clear control mechanisms.

These issues do not stand alone, but are closely linked to the dynamics of formal and informal institutions at the village level. Formal rules such as village regulations (Perdes), bylaws (AD/ART), standard operating procedures (SOPs), and reporting mechanisms are often not implemented consistently. Instead, informal institutions including village head patronage, kinship relations, elite dominance, and a culture of reluctance to criticize tend to exert greater influence over decision-making processes. This condition indicates a misalignment between formal rules and informal practices, which constitutes a primary cause of weak organizational performance (Acemoglu & Robinson, 2020; Sarigil, 2023). The dominance of informal practices has distorted governance processes, manifested in the appointment of BUM Desa managers based on personal proximity, business decisions that are not grounded in economic analysis, and non-transparent financial management.

The dominance of informal institutions constitutes the root of governance failure, a condition in which governance systems are unable to steer organizations toward their intended objectives. Governance failure in the management of BUM Desa in Mamuju Tengah is reflected in weak accountability, the absence of effective monitoring mechanisms, and limited business innovation resulting from dependence on particular local elites. Such governance failures commonly occur in local organizations when there is a gap between the capacity of formal structures and the interests of informal actors (Fukuyama, 2013; Grindle, 2007). This argument is reinforced by studies on elite capture in rural development, which demonstrate how informal power structures can divert development programs from their original objectives (Mansuri & Rao, 2014; Platteau, 2004).

Furthermore, the socio-economic indicators of Mamuju Tengah Regency highlight the urgency of strengthening village economic institutions. Rising poverty trends, fluctuating economic growth, and a still-developing quality of human resources point to significant challenges in achieving community welfare. As a local economic institution, BUM Desa is expected to play a strategic role in increasing village revenue and stimulating community economic activities. However, without effective governance arrangements, this potential role cannot be realized optimally.

**Table 3.** Socio-Economic Indicators of Mamuju Tengah Regency

| Indicator | 2021 | 2022 | 2023 |
|---|---|---|---|
| Poverty Rate (%) | 7.13 | 7.17 | 7.32 |
| Open Unemployment Rate (%) | 1.88 | 1.88 | 1.83 |
| Human Development Index (HDI) | 66.18 | 66.89 | 67.63 |
| Economic Growth (%) | 3.26 | 2.30 | 2.80 |

*Source: Central Bureau of Statistics (BPS) of Mamuju Tengah Regency (2024)*

Table 3 highlights persistent socio-economic challenges, including rising poverty levels and fluctuating economic growth, which underscore the limited impact of existing village economic institutions. Although BUM Desa are expected to play a strategic role in improving local welfare, these trends suggest that their contribution remains constrained. This gap further reinforces the argument that the problem lies not in the absence of institutional instruments, but in the ineffectiveness of governance arrangements in enabling BUM Desa to function as productive economic actors. Without robust governance arrangements, BUM Desa tends to remain confined to an administrative role and fails to generate significant economic impacts (Pawitan et al., 2025). Taken together, these conditions point to a deeper governance issue that cannot be explained solely by administrative, legal, or socio-economic factors.

Despite the widespread establishment of BUM Desa and the availability of formal regulatory frameworks, many BUM Desa fail to function as effective drivers of local economic development. This study argues that the core problem does not lie in the absence of formal institutions, but in the persistent misalignment between formally established governance arrangements and the informal practices that shape everyday decision-making. In practice, informal institutions often override formal rules, reconfiguring decision-making authority toward discretionary control, weakening accountability, and ultimately constraining organizational performance. This institutional misalignment constitutes the central governance problem that this study seeks to explain.

Although studies on BUM Desa have expanded within the fields of public administration and rural development, most existing research continues to focus on normative aspects such as regulatory frameworks, financial governance, business effectiveness, and community empowerment models. There remains a limited number of studies that explicitly examine the mechanisms through which formal and informal institutions interact as key determinants of BUM Desa performance. Existing literature largely emphasizes managerial shortcomings or administrative compliance issues (Haykal et al., 2024), without sufficiently explaining how informal practices interact with formal rules and subsequently shape decision-making processes. Even studies on village politics and governance (Antlöv et al., 2016; Berenschot, 2018) tend to address governance dynamics in


https://doi.org/10.35308/jpp.v12i3.14538

general terms, without mapping the causal mechanisms linking institutional dualism to governance failure within BUM Desa. As a result, current explanations tend to describe symptoms of failure rather than the institutional mechanisms that produce them. This limitation indicates the need for analytically grounded studies that move beyond descriptive assessments toward mechanism-based explanations.

To explain this problem, the study draws on an integrated theoretical framework that links institutional theory, informal governance, and governance failure. This study conceptualizes governance failure in BUM Desa as the outcome of dynamic interactions between formal and informal institutions. Drawing on institutional theory, organizations are shaped not only by formal regulatory structures but also by normative and cognitive dimensions that guide actor behavior (Scott, 2001). In decentralized village contexts, these dimensions often manifest through informal institutions which coexist with formal governance arrangements.

Building on informal governance theory, this study adopts the perspective that informal institutions do not merely complement formal rules but can also substitute or undermine them, particularly when formal enforcement is weak (Helmke & Levitsky, 2004). This interaction creates conditions of institutional misalignment, where formal governance mechanisms exist but fail to function effectively in practice.

Within this framework, governance failure is understood not as a result of technical or managerial deficiencies, but as a systemic outcome of institutional configurations in which informal institutions dominate and weaken the enforcement of formal rules (Fukuyama, 2013; Grindle, 2007). By integrating these perspectives, this study develops a mechanism-based explanation in which weak formal enforcement enables informal dominance, leading to distorted decision-making, weakened accountability, and ultimately poor organizational performance in BUM Desa.

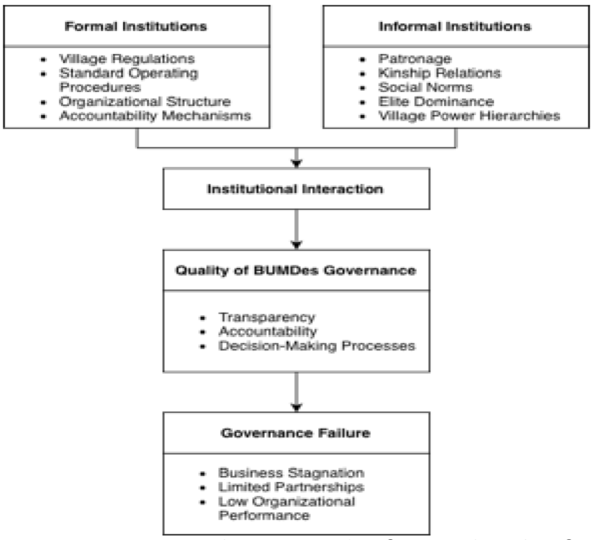


**Figure 1. Conceptual Framework of Formal and Informal Institutional Interaction in BUM Desa Governance**
Source: Processed by the authors (2026)

BUM Desa governance is shaped by the interaction between formal and informal institutions. Formal institutions are designed to ensure transparency and procedural consistency. However, in practice, they are often overshadowed by informal institutions, including patronage networks, kinship relations, and hierarchical social norms, which more strongly influence decision-making. When formal rules are weakly enforced and informal practices become dominant, governance quality deteriorates, resulting in weak accountability, limited transparency, and stagnating business performance.

Rather than claiming theoretical novelty, this study contributes to the existing literature by providing a context-specific and mechanism-based explanation of how formal and informal institutional interactions shape governance outcomes in BUM Desa. While prior studies have examined informal institutions and governance dynamics in decentralized settings, they often treat informal practices as contextual background or focus on general governance patterns. This study extends the literature by explicitly tracing the causal mechanisms through which institutional misalignment translates into governance failure and divergent performance outcomes at the village level. By grounding this analysis in empirical evidence from BUM Desa, the study offers a more fine-grained understanding of how institutional interactions operate in practice within community-based economic organizations.

## METHOD

This study adopts a qualitative approach with a multiple case study design to explain the mechanisms through which interactions between formal and informal institutions shape BUM Desa governance and produce governance failure. This approach was selected because it enables an in-depth and contextual understanding of complex governance processes that cannot be adequately captured through quantitative measurement, particularly when institutional practices, power relations, and actor behavior are central to the analysis (Creswell & Poth, 2013). The use of multiple case studies also strengthens analytical rigor through logical replication and cross-case comparison across research sites (Yin, 2016).

The study was conducted in five villages in Mamuju Tengah Regency, Indonesia, selected through purposive sampling based on three key criteria: variation in BUM Desa performance (high, moderate, and low), differences in legal status (fully registered, in process, and unregistered), and distinct governance characteristics, particularly the degree of informal institutional dominance. This selection strategy was intended to enable analytical comparison across cases and to capture how different institutional configurations shape governance outcomes. This approach follows a logic of theoretical replication, where cases are selected to reveal contrasting institutional patterns rather than to achieve statistical representativeness.

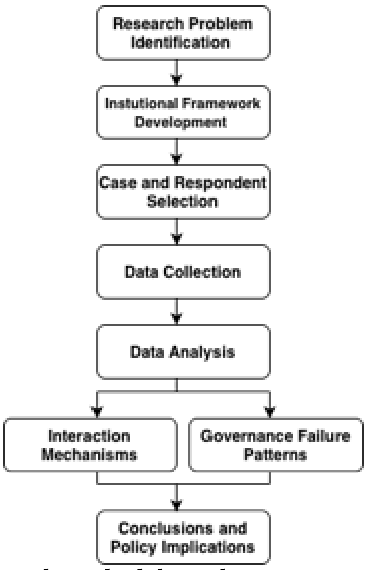


**Figure 2. Research Methodology Flow**
Source: Processed by the authors (2026)

Both primary and secondary data were utilized. Primary data were collected through semi-structured in-depth interviews and non-participant observation to capture governance practices, decision-making processes, and institutional interactions. A total of 25 informants—including village heads, BUM Desa managers, BPD members, local officials, and community leaders—were interviewed using a semi-structured protocol focusing on governance practices, decision-making, and informal institutions. Each interview lasted 45–90 minutes and was recorded and transcribed. Secondary data included village regulations, bylaws (AD/ART), financial reports, meeting minutes, and official government documents to support triangulation.

Process tracing was applied by identifying sequences of key events, decision points, and actor interactions, linking observed practices to their institutional causes and outcomes. Data from interviews, documents, and observations were triangulated to construct causal explanations of governance failure. To address potential researcher bias, the study employed reflexive memo writing, member checking, and cross-validation of data sources to ensure credibility and transparency.

Data analysis was conducted using thematic coding through open, axial, and selective procedures (Corbin & Strauss, 2015), followed by process tracing to identify sequences of events, decision points, and actor interactions that explain the mechanisms of governance failure. To ensure analytical rigor, the study employed methodological and source triangulation, member checking, and reflective memo writing (Tracy, 2010). These approaches enabled the study to move beyond descriptive analysis by systematically linking institutional misalignment to governance failure and business stagnation in BUM Desa.

## RESULTS AND DISCUSSION

### Patterns of Formal–Informal Institutional Interaction

The empirical findings reveal that governance practices within BUM Desa in Mamuju Tengah Regency are characterized by a persistent and systematic interaction between formally established institutional arrangements and dominant informal institutions. Although all villages under study have formally established BUM Desa complete with village regulations (Perdes), bylaws (AD/ART), organizational structures, and basic standard operating procedures (SOPs), these formal instruments are weakly embedded in everyday governance practices. In most cases, formal rules function primarily as symbolic or administrative instruments rather than as effective mechanisms guiding organizational behavior and decision-making.

Field evidence indicates that informal institutions including patronage networks, kinship relations, village head dominance, elite influence, and hierarchical social norms play a decisive role in shaping governance outcomes. Managerial appointments are frequently based on personal proximity, political loyalty, or kinship ties rather than professional competence or managerial experience. In several villages, BUM Desa managers reported that key strategic decisions, including business selection, capital allocation, and partnership formation, were informally negotiated with village heads or influential local actors before being formalized administratively. This pattern reflects a condition in which informal institutions systematically override formal governance arrangements as conceptualized by Helmke & Levitsky (2004).

These findings indicate that the effectiveness of governance is determined not by the presence of formal rules alone, but by how they interact with prevailing informal norms and practices. When informal institutions override formal arrangements, governance mechanisms lose their binding force; however, when both are more aligned, formal rules are more likely to function effectively.

These comparative insights reinforce the empirical pattern observed in this study, but more importantly suggest that the dominance of informal institutions is not incidental. Rather, it emerges systematically when formal enforcement is weak or lacks social legitimacy, indicating that institutional outcomes are shaped by the relative strength and alignment of competing rule systems (Bardhan, 2002; López-Vargas et al., 2023; Rahman et al., 2017). Hodgson (2025) further emphasizes that the interaction between formal and informal institutions often determines whether institutional arrangements function as intended or are rendered ineffective in practice.

Importantly, the findings do not suggest that formal institutions are absent or irrelevant. Rather, they are functionally marginalized. Formal governance frameworks exist, but their practical influence is constrained by informal practices that enjoy greater legitimacy and enforcement power at the local level. This condition aligns with Sarigil (2023) argument that informal institutions can either complement or substitute formal rules. In the case of BUM Desa in Mamuju Tengah, informal institutions largely substitute formal governance mechanisms, thereby weakening accountability and organizational discipline.

**Table 4.** Formal and Informal Institutional Interaction in BUM Desa Governance

| Institutional Dimension | Formal Arrangements | Dominant Informal Practices |
|---|---|---|
| **Managerial appointment** | Open selection, SOP-based | Patronage, kinship ties |
| **Decision making** | Formal meetings, documentation | Elit negotiation, village head dominance |
| **Accountability** | Financial reports, evaluations | Reluctance to criticize |
| **Business planning** | Written plans, feasibility | Ad hoc decisions |


https://doi.org/10.35308/jpp.v12i3.14538

Source: Processed by the authors (2026)

This pattern indicates that governance failure is embedded in routine practices, where informal rules are repeatedly reproduced through everyday interactions rather than arising from isolated deviations. The table illustrates that governance failure does not stem from the absence of formal rules, but from the systematic subordination of these rules to informal institutions that enjoy stronger social legitimacy and enforcement capacity. For instance, although managerial appointments are formally regulated through open selection procedures and SOPs, the dominance of patronage and kinship ties results in the appointment of managers with limited professional competence. This pattern weakens organizational professionalism and constrains strategic decision-making capacity.

Similarly, the table shows that formal decision-making mechanisms such as meetings, documentation, and deliberative forums are routinely overshadowed by elite negotiations and village head dominance. This substitution of formal deliberation with informal negotiation reduces transparency and limits collective input, reinforcing discretionary decision-making. In the accountability dimension, the coexistence of formal reporting requirements with informal norms discouraging criticism creates a governance environment in which oversight mechanisms exist symbolically but lack operational effectiveness. As a result, accountability is procedural rather than substantive.

The business planning dimension further highlights how institutional interaction affects organizational performance. While formal business plans and feasibility studies are formally required, ad hoc and informal decision-making practices dominate in practice, leading to poorly designed business initiatives and long-term stagnation. Overall, Table 4 demonstrates that governance outcomes are determined by the relative strength of informal institutions vis-à-vis formal rules, supporting institutional theories that emphasize the importance of institutional alignment rather than institutional presence alone (Helmke & Levitsky, 2004; Waheduzzaman et al., 2018).

However, the findings do not uniformly indicate the dominance of informal institutions across all cases. In several instances, formal governance mechanisms—such as documented procedures, financial reporting, and deliberative forums—retain partial influence, particularly in villages with stronger administrative capacity and more inclusive leadership. In these contexts, informal institutions do not fully substitute formal rules but instead coexist with them in a more balanced manner. This variation suggests that the relationship between formal and informal institutions is not inherently antagonistic, but contingent on local institutional configurations. Rather than a uniform pattern of informal dominance, the findings point to a spectrum of interactions ranging from substitution to partial complementarity, which helps explain differences in governance outcomes across cases.

**Manifestations of Governance Failure in BUM Desa**

The manifestations of governance failure identified in this study should not be understood as isolated symptoms, but as interrelated outcomes of a causal process rooted in institutional misalignment. Limited practical enforcement of formal rules creates institutional space in which informal practices become the primary basis of governance. This weakening of oversight reduces the quality of business planning and limits organizational learning, ultimately leading to stagnating business performance. These dimensions reinforce one another, forming a self-reinforcing cycle in which initial institutional weaknesses generate cumulative governance failures over time.

The dominance of informal institutions over weakly implemented formal governance arrangements generates multiple manifestations of governance failure in BUM Desa management. One of the most prominent manifestations is the erosion of accountability and transparency mechanisms. Although formal accountability instruments such as financial reporting requirements, annual village deliberation forums, and internal supervision mechanisms are formally stipulated, their implementation remains inconsistent and largely symbolic.

Financial reports are often prepared irregularly, with several BUM Desa unable to produce complete or audited financial statements. Annual evaluation meetings are infrequently conducted, and when they do occur, discussions tend to focus on administrative compliance rather than substantive performance evaluation. The allocation and use of business surplus are rarely disclosed transparently to village stakeholders, limiting opportunities for public scrutiny and collective learning. These findings indicate that accountability mechanisms exist in form but not in function. This condition reflects a broader pattern in decentralized governance where formal accountability mechanisms are adopted primarily for symbolic compliance, while their enforcement remains weak in practice (Salomo & Rahmayanti, 2023).

Such conditions exemplify governance failure, defined as the inability of governance systems to steer organizations toward intended collective goals (Fukuyama, 2013; Grindle, 2007). In the observed cases, informal power relations restructure decision-making processes, concentrating authority within a narrow set of actors while weakening formal oversight. This pattern closely resembles elite capture dynamics identified in decentralized governance systems, where local elites appropriate institutional authority for personal or political interests (Persha & Andersson, 2014; Platteau, 2004).

Governance failure is also evident in the stagnation of BUM Desa business units. Many BUM Desa operate only one or two small-scale business activities, such as equipment rental, basic retail, or savings and loan services, often without systematic feasibility analysis or long-term business planning. Decisions regarding business selection and capital utilization are frequently driven by short-term considerations, political symbolism, or personal preferences rather than market analysis or risk assessment. As a result, business units struggle to expand, diversify, or generate sustainable revenue streams.

These findings are consistent with national studies on BUM Desa, which report that weak governance and limited managerial capacity constrain business performance (Arifin et al., 2020; Nugraha et al., 2025; Wahidah & Herdiana, 2023). International literature further supports this pattern. Mansuri & Rao (2014) argue that community-based economic institutions often fail when accountability mechanisms are weak and participation is dominated by local elites. Similarly, Dick-Sagoe (2020) demonstrates that decentralization without effective accountability structures tends to reproduce governance failures at the local level.

**Table 5.** Manifestations of Governance Failure in BUM Desa

| Type of Governance Failure | Empirical Indicators | Impact on Performance |
|---|---|---|
| **Weak accountability** | Irregular reporting, no audits | Declining trust |
| **Elite dominance** | Discretionary decisions | Low profesionalism |
| **Poor business planning** | No feasibility studies | Business stagnation |
| **Limited transparency** | Undisclosed surplus use | Weak participation |

Source: Processed by the authors (2026)

Together, these dimensions form an interconnected governance system in which failures in one domain systematically propagate to others, reinforcing organizational stagnation. The table reveals that governance failure is multi-dimensional and mutually reinforcing. Weak accountability, as evidenced by irregular reporting and the absence of audits, undermines organizational transparency and erodes stakeholder trust. This erosion of trust further reduces community willingness to engage in oversight or participate in decision-making processes, thereby reinforcing governance failure.

Elite dominance, reflected in discretionary decision-making practices, directly affects organizational professionalism. When decisions are centralized within a small group of actors, managerial autonomy is constrained and learning processes are limited. This condition mirrors elite capture dynamics described in the decentralization literature, where local elites exploit institutional authority for personal or political gain (Persha & Andersson, 2014; Platteau, 2004). Poor business planning, marked by the absence of feasibility studies and market analysis, leads to business stagnation and limits the ability of BUM Desa to respond to market opportunities or external shocks.

The table also highlights the role of limited transparency in weakening participation. When information on surplus allocation and business performance is not disclosed, villagers lack the basis for informed engagement, further marginalizing participatory governance mechanisms. Collectively, the patterns summarized in Table 2 illustrate how governance failure emerges as a structurally embedded outcome produced by the interaction of mutually reinforcing institutional weaknesses. This finding aligns with governance failure frameworks emphasizing structural and institutional causes over technical explanations (Fukuyama, 2013; Grindle, 2007; Persha & Andersson, 2014).

To synthesize the causal dynamics identified across cases, Figure 3 illustrates the mechanism through which interactions between weakly enforced formal institutions and dominant informal practices generate governance failure in the management of BUM Desa.

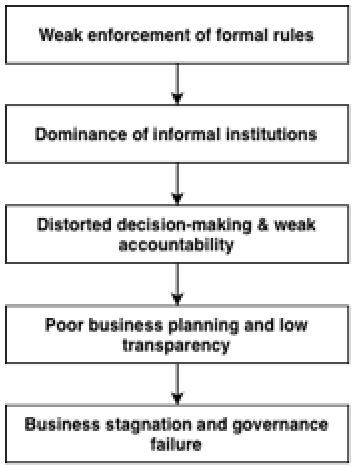


**Figure 3. Mechanism of Governance Failure in BUM Desa**
Source: Processed by the authors (2026)

Figure 3 conceptualizes governance failure in BUM Desa as a sequential and self-reinforcing institutional process rather than as an isolated managerial or technical problem. This mechanism highlights that governance failure is path-dependent, where initial weaknesses in institutional enforcement generate cumulative effects that are difficult to reverse without structural intervention. This weak enforcement creates institutional space for informal institutions such as patronage networks, elite control, and kinship-based authority to dominate everyday governance practices (Po et al., 2019).

As informal institutions gain dominance, decision-making processes become increasingly discretionary and detached from formal procedural safeguards. Strategic decisions related to management, finance, and business development are no longer guided by formal procedures or collective deliberation, but by discretionary judgments of village elites. This condition undermines accountability mechanisms, as formal oversight bodies and reporting requirements lose their practical relevance. Accountability becomes procedural and symbolic, rather than substantive and performance-oriented.

The figure further illustrates how distorted decision-making and weak accountability translate into poor business planning and limited transparency. Without feasibility studies, market analysis, or transparent financial disclosure, BUM Desa business units struggle to adapt, innovate, or expand. Over time, these conditions result in business stagnation and reinforce public distrust, which in turn reduces community participation and oversight. This feedback loop strengthens informal dominance and perpetuates governance failure.

By presenting governance failure as a causal chain, Figure 3 reinforces the central argument of this study that institutional misalignment is the primary driver of BUM Desa underperformance. This mechanism-based explanation aligns with governance failure theory (Fukuyama, 2013; Grindle, 2007) and informal governance literature Helmke & Levitsky (2004), while providing an empirically grounded framework for understanding why technocratic interventions alone are insufficient to improve village enterprise governance.

### Cross-Case Variations in Governance Outcomes

Despite the prevalence of governance failure patterns, the study reveals significant variation in governance outcomes and BUM Desa performance across villages. While most BUM Desa experience stagnation, a small number demonstrate relatively


https://doi.org/10.35308/jpp.v12i3.14538

better performance, characterized by more consistent financial reporting, active business units, and successful external partnerships. These variations indicate that governance failure is not uniform, but mediated by specific institutional and social conditions.

Leadership quality emerges as a key explanatory factor. Villages led by inclusive and non-dominant village heads exhibit more balanced interactions between formal and informal institutions. In these contexts, BUM Desa managers enjoy greater operational autonomy, accountability mechanisms function more effectively, and community participation is more substantive. Recent studies on village governance similarly emphasize that inclusive leadership and strong social capital can mitigate the dominance of informal power relations and enhance accountability in decentralized institutions (Annahar et al., 2023). These findings align with collaborative governance literature, which emphasizes the role of inclusive leadership, trust-building, and shared decision-making in improving governance outcomes (Ansell & Gash, 2008; Bianchi et al., 2021; Emerson et al., 2012).

Administrative capacity and legal readiness also mediate governance outcomes. BUM Desa with complete legal status, clearer documentation practices, and managers possessing basic administrative skills are better positioned to engage with external partners and sustain business activities. Comparative studies in decentralized governance contexts demonstrate that institutional capacity and legal clarity are critical determinants of local institutional effectiveness (Faguet & Pöschl, 2015; Goodfellow, 2013).

Social capital further differentiates governance outcomes. Villages characterized by open communication, lower social hierarchy, and stronger traditions of collective action exhibit higher levels of oversight and community engagement. Conversely, villages dominated by rigid patronage networks show limited social control, reinforcing governance failure. This finding is consistent with Agrawal & Ribot (1999) framework on accountability in decentralization and Salman Khan & Syrett (2022) analysis of power relations in local governance.

Table 6 provides a comparative perspective that explains why governance outcomes vary across villages despite operating under similar formal regulatory frameworks. The table demonstrates that variations in leadership style, levels of informal dominance, and accountability mechanisms produce divergent governance and performance outcomes. High-performing villages are characterized by inclusive leadership styles that moderate informal dominance and strengthen accountability mechanisms. In these contexts, formal institutions are more likely to function effectively because they are supported rather than undermined by informal norms.

**Table 6.** Cross-Case Comparison of BUM Desa Governance Outcomes

| Village Type | Leadership Style | Informal Dominance | Business Performance |
|---|---|---|---|
| High-performing | Inclusive | Moderate | Growing |
| Moderate | Mixed | High | Stable |
| Low-performing | Dominant | Very high | Stagnant |

*Source: Processed by the authors (2026)*

In contrast, low-performing villages exhibit dominant leadership styles coupled with very high levels of informal dominance, resulting in weak accountability and persistent business stagnation. This pattern suggests that when informal institutions substitute formal governance mechanisms entirely, organizational performance deteriorates. Moderate-performing villages occupy an intermediate position, where mixed leadership styles and partial accountability produce stable but limited performance outcomes.

The comparative evidence underscores that governance failure is contingent rather than inevitable. Leadership quality, administrative capacity, and social capital shape how formal and informal institutions interact, thereby influencing governance outcomes. These findings are consistent with comparative studies in decentralized governance, which emphasize the mediating role of leadership and institutional capacity in determining local governance performance (Faguet & Pöschl, 2015; Goodfellow, 2013; Salman Khan & Syrett, 2022). This variation highlights that institutional outcomes are configurational, shaped by the interplay of leadership, capacity, and social structure rather than by formal design alone.

## CONCLUSION

The findings demonstrate that governance failure in BUM Desa is structurally produced through persistent institutional misalignment rather than arising from isolated technical or managerial deficiencies. Although formal governance frameworks are formally established, their effectiveness is consistently undermined by dominant informal institutions, including patronage networks, elite control, kinship relations, and norms discouraging criticism. These informal practices distort decision-making, weaken accountability, and limit transparency, resulting in poor business planning and persistent stagnation of BUM Desa operations.

The findings also demonstrate that governance outcomes vary across villages and are shaped by specific institutional configurations. Variations in leadership style, administrative capacity, legal readiness, and social capital influence how formal and informal institutions interact, producing divergent governance and performance outcomes. Villages with more inclusive leadership and stronger administrative capacity tend to exhibit better-aligned institutional interactions and relatively improved performance, while those dominated by hierarchical leadership and entrenched informal power relations experience deeper governance failure. This evidence indicates that governance failure is not inevitable, but contingent on local institutional dynamics.

By offering a mechanism-based explanation, this study contributes to the literature on governance failure and informal institutions by positioning informal power relations as central explanatory factors in decentralized economic governance. From a policy perspective, the findings suggest that efforts to strengthen BUM Desa should move beyond technocratic interventions toward institutional reforms that address informal power relations, leadership accountability, and the enforcement of governance rules. At the same time, the study is limited by its qualitative multiple-case design in a single regency, which constrains generalizability and causal measurement. Future research could adopt comparative or mixed-method approaches across regions and examine the role of external actors in reshaping institutional interactions to mitigate governance failure in village-owned enterprises.

**Acknowledgment**
The authors sincerely thank Universitas Hasanuddin for its institutional support. The authors also appreciate the Government of Mamuju Tengah Regency, village governments, BUM Desa managers, and all participants for their valuable contributions to this research.

**CRediT authorship contribution statement**
Muh Tang Abdullah: Conceptualization, methodology, investigation, formal analysis, writing – original draft, supervision. Ralaivao Hanginiaina Emynoran: Data curation, Methodology, Resources. Much Faisal Syaputra: Data curation, validation, writing – review and editing. Rizal Pauzi: Formal analysis, Resources, Writing – review & editing.

**Conflict of Interest**
The authors declare that there are no conflicts of interest regarding the publication of this article.

**Ethical Statement**
This study was conducted in accordance with established ethical standards for research involving human participants and was approved by the Ethics Committee of Universitas Hasanuddin. Informed consent was obtained from all participants prior to their involvement in the study.

**Data Availability**
The data that support the findings of this study are available from the corresponding author upon reasonable request.

**Declaration of Generative AI Use**
During the preparation of this manuscript, the authors used QuillBot, and Grammarly to assist with language editing, improving grammar, clarity, readability, and the overall presentation of the manuscript. All AI-generated outputs were carefully reviewed and revised by the authors. The authors take full responsibility for the scientific content, originality, accuracy, and integrity of this article.

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