

Utilization of Innovation and Business Diversification by Village-Owned Enterprises in Indonesia

*Innovation and
Business Diversification
in VOEs*

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ABSTRACT

Village-Owned Enterprises in Indonesia face challenges in increasing the resilience, competitiveness, and empowerment of rural communities. Therefore, business diversification is an important strategy to support inclusive development. This study examines the utilization of business diversification techniques by village-owned enterprises in Indonesia to improve resilience, competitiveness, and empower rural communities. Employing a grounded theory methodology, data were gathered via comprehensive interviews and focus group discussions with principal stakeholders of village-owned enterprises. The coding method, which included open, axial, and selective coding with NVivo 12, produced a theoretical framework elucidating the determinants, strategies, and consequences of village-owned enterprises diversification. The results indicate that effective diversification is influenced by four interconnected factors: innovation, collaborative governance, digital transformation, and community participation. Janti Jaya village-owned enterprises had substantial growth via agrotourism, e-ticketing, Micro, Small, and Medium Enterprises facilitation, and Corporate Social Responsibility collaborations, generating IDR 4 billion in revenue during the first semester of 2023 and receiving acknowledgment as one of the Top 15 “Desa Brilian.” Karunia Sejahtera VOE utilized Umbul Ngrundul’s tourism and digital services to strengthen sustainability, while the study extends grounded theory and offers policy insights on innovation, governance, and collaboration for inclusive rural development.

Keywords: *Diversification Strategy, Digital Transformation, Grounded Theory, Rural Innovation, Village-Owned Enterprises.*

ABSTRAK

Badan usaha milik desa di Indonesia menghadapi tantangan dalam meningkatkan ketahanan, daya saing, dan pemberdayaan masyarakat pedesaan, sehingga diversifikasi usaha menjadi strategi penting untuk mendukung pembangunan inklusif. Studi ini mengkaji pemanfaatan teknik diversifikasi usaha oleh badan usaha milik desa di Indonesia untuk meningkatkan ketahanan, daya saing, dan memberdayakan masyarakat pedesaan. Dengan menggunakan metodologi grounded theory, data dikumpulkan melalui wawancara komprehensif dan diskusi kelompok terfokus dengan

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para pemangku kepentingan utama badan usaha milik desa. Metode pengkodean, yang meliputi pengkodean terbuka, aksial, dan selektif dengan NVivo 12, menghasilkan kerangka teoritis yang menjelaskan determinan, strategi, dan konsekuensi diversifikasi badan usaha milik desa. Hasil penelitian menunjukkan bahwa diversifikasi yang efektif dipengaruhi oleh empat faktor yang saling terkait: inovasi, tata kelola kolaboratif, transformasi digital, dan partisipasi masyarakat. Badan Usaha Milik Desa Janti Jaya mengalami pertumbuhan substansial melalui agrowisata, e-ticketing, fasilitasi Usaha Mikro, Kecil, dan Menengah, dan kolaborasi Tanggung Jawab Sosial Perusahaan, menghasilkan pendapatan sebesar Rp4 miliar selama semester pertama tahun 2023 dan menerima pengakuan sebagai salah satu dari 15 Desa Brilian Teratas. Badan Usaha Milik Desa Karunia Sejahtera memanfaatkan layanan pariwisata dan digital Umbul Ngrundul untuk memperkuat keberlanjutan, sementara studi ini memperluas teori dasar dan menawarkan wawasan kebijakan tentang inovasi, tata kelola, dan kolaborasi untuk pembangunan pedesaan yang inklusif.

Kata kunci: Strategi Diversifikasi, Transformasi Digital, Grounded Theory, Inovasi Pedesaan, Badan Usaha Milik Desa.

INTRODUCTION

Business diversification is widely acknowledged as a crucial strategy for rural firms aiming for resilience, growth, and sustainability amid economic, social, and environmental problems. Recent literature underscores the significance of innovation, digitalization, and social entrepreneurship in facilitating the diversification of rural firms, their adaptation to evolving market conditions, and their contribution to local development (Li et al., 2019; Stojanova et al., 2022). Diversification serves as a self-insurance strategy, enabling rural firms to mitigate risks associated with volatile commodity prices, climatic fluctuations, and market disturbances. Research indicates that farms with diversified income sources, such as integrating crop production with agritourism or value-added processing, exhibit greater resilience to economic disruptions and regulatory alterations (Mishra et al., 2004; Ellis, 2008; Boiko, 2017; Hochuli et al., 2021; Miaris et al., 2025). In crises such as the COVID-19 pandemic, unrelated diversification, such as entering service industries, emerged as a key resilience strategy for village-owned firms in emerging nations (Yaya et al., 2022; Gittins & McElwee, 2024).

The effectiveness of diversification strategies is considerably influenced by the regulatory environment and institutional support. Access to training, financial resources, infrastructure, and supportive policies is a critical enabler (Biczkowski et al., 2021; Hnatkivskyi, 2021). For instance, Village-Owned Enterprises (VOEs) in Java have determined that diversifying into unrelated sectors, particularly services, is the most effective method for enduring economic shocks such as the COVID-19 recession, surpassing related diversification in agriculture or manufacturing (Yaya et al., 2022). In North Toraja, farmers are progressively embracing agritourism, driven by revenue prospects, resource accessibility, and market demand. Agritourism enhances revenue, fortifies economic resilience, and promotes sustainable development.

Through diversification, rural companies enhance their own sustainability while simultaneously advancing wider rural development goals. This encompasses alleviating rural poverty, bolstering food security, augmenting employment, and fostering the sustainability of rural communities (Li et al., 2019; Amidžić et al., 2020; Kitole & Genda, 2024). Diversification aids rural regions in adjusting to wider economic transformations, including urbanization and the transition to knowledge-based economies (Jha & Mishra, 2023). Loison (2015), Grashuis (2018), Shrivastava and Dwivedi (2020) and Tabares et al. (2022) illustrated that diversification strategies provide significant economic and operational benefits in rural enterprise income and resilience. In addition, Méda and Atewamba (2020), Dhillon and Moncur (2023) and Sánchez-Medina et al. (2024) highlighted the importance of digital innovation and technology adoption to facilitate sustainable diversification.

Notwithstanding its advantages, diversification is underutilized in numerous places owing to obstacles, including restricted access to money, deficiencies in skills, insufficient infrastructure, and risk aversion. Minor and peripheral rural enterprises, along with women-led businesses, frequently encounter supplementary obstacles in obtaining the resources and networks essential for innovation and diversification (Calza et al., 2018; Jack et al., 2020; Kitole & Genda, 2024). A key challenge for rural enterprises is addressing economic and environmental risks through business diversification, which is often hampered by limited access to capital, skills, infrastructure, and supportive policies. Furthermore, small-scale and women-led enterprises face additional constraints on networking and innovation, leading to underutilization of these strategies in many regions. This not only reduces their resilience to shocks such as price fluctuations and climate change but also hinders their contribution to sustainable local development. Despite an expanding corpus of work, there is a lack of grounded theory studies that directly examine the processes and results of business diversification in varied rural settings. Empirical studies on the enduring ecological and social effects of diversification, together with the obstacles encountered by women-led and small-scale firms, are scarce.

This research aims to analyze the process and impact of business diversification in rural enterprises, focusing on the barriers faced by small-scale and women-led enterprises and their implications for sustainable development. Furthermore, the study will explore the role of digital innovation and institutional support in enhancing the effectiveness of diversification, using a grounded theory approach to fill the existing empirical gap. The aim is to provide practical recommendations for policymakers and rural stakeholders to strengthen economic and social resilience in rural areas.

LITERATURE REVIEW

Village-owned Enterprises (VOEs) are characterized as community-managed economic entities that leverage local assets within a governance framework prioritizing transparency, accountability, participation, and sustainability (Sari et al., 2024). VOEs are designed to empower rural communities by involving them in economic activities and decision-making. High levels of community participation and collaboration with local governments are critical for the success and sustainability of VOEs, especially as a strategy for regional development and poverty reduction. Empowerment programs and participatory management are repeatedly emphasized as drivers of VOEs' effectiveness (Lestary & Hadi, 2021).

As they have grown, VOEs in Indonesia have faced several problems and challenges that need to be dealt with. VOEs encounter issues regarding their financial performance, namely with financial efficiency and revenue (Johnson, 2019; Elagin et al., 2021; Sabilla et al., 2022). Moreover, the performance of VOEs can be assessed from three dimensions: accounting, market, and operational. Additional research indicates that corporate performance can be assessed from two viewpoints: financial metrics, including profit and sales, and non-financial metrics, such as customer satisfaction and the quality of goods or services rendered (Yaya et al., 2022; Habib et al., 2023; Cardillo et al., 2024).

Diversification strategy in rural companies has emerged as a primary concern in academic study and policy discourse, as rural communities globally confront increasing economic, environmental, and social difficulties (Khatiwada et al., 2017; Cerrato et al., 2022; Kurniawati et al., 2022). The literature indicates that diversification, through on-farm, off-farm, or non-farm activities, functions as a vital strategy for risk management, income stabilization, poverty alleviation, and resilience enhancement in rural regions (Yaya et al., 2022; Li, 2024; Spraakman et al., 2024).

Empirical research across various regions, including Europe, Africa, and Asia, underscores the diversity of diversification drivers, such as land fragmentation, education, access to credit, market proximity, and policy support (Khatiwada et al., 2017; Kurniawati et al., 2022; Habib et al., 2023; Li, 2024). The efficacy and influence of diversification strategies are affected by local circumstances, household resources, and overarching institutional structures (Wan et al., 2016; De Rosa et al., 2019; Gittins et al.,

2025). Diversification is frequently linked to enhanced welfare, food security, and company success; nevertheless, the literature identifies limits including inadequate infrastructure, skill competency gap, and policy obstacles (Okpukpara, 2013; Vovk & Stybel, 2024; Geng, 2025; Sipp et al., 2025).

Rural enterprise diversification encompasses various strategies, including on-farm diversification (e.g., crop rotation, agroforestry, agritourism), off-farm activities (e.g., wage labor, services), and non-farm income sources (e.g., small businesses, remittances) (Oladimeji & Udosen, 2019; Kurniawati et al., 2022; Adella & Dillak, 2023). The selection and degree of diversity are influenced by farm size, household resources, market accessibility, and regional agro-ecological factors (Voronets & Garafonova, 2023; Cardillo et al., 2024; Luc & Njenga, 2024).

The primary factors influencing diversification are landholding size, education, access to credit, livestock ownership, market distance, and policy incentives (Habib et al., 2023; Li, 2024; Spraakman et al., 2024). Socio-demographic variables, including age, gender, and family size, in conjunction with institutional support and exposure to perturbations such as climatic and market fluctuations, are critical determinants (Mulwa & Visser, 2020; Reddy et al., 2021; Joshi, 2022). Affluent households generally diversify by preference, employing assets for higher-yield ventures, while economically disadvantaged households diversify out of necessity (Johnson, 2019; Li et al., 2019; Elagin et al., 2021; Voronets & Garafonova, 2023). Diversification is typically linked to enhanced household welfare, food security, income stability, and resistance to shocks (Khatiwada et al., 2017; Kurniawati et al., 2022; Yaya et al., 2022). On-farm diversity can improve environmental sustainability and resource utilization efficiency (Okpukpara, 2013; Khalatur et al., 2019; Rahman & Mishra, 2019). The correlation between diversity and financial success is context-dependent and varies by farm type, with certain research indicating limited or heterogeneous impacts (Amidžić et al., 2020; Luc & Njenga, 2024; Sipp et al., 2025).

Obstacles to successful diversification encompass insufficient infrastructure, restricted market and credit access, talent deficiencies, and regulatory limitations (Okpukpara, 2013; Cao et al., 2021; Vovk & Stybel, 2024; Geng, 2025). Policy interventions, including rural development initiatives, training, and support for micro-enterprises, can promote diversification; however, their efficacy is contingent upon local adaptation and precise targeting (Wan et al., 2016; Joudia et al., 2017; De Rosa et al., 2019; Gittins et al., 2025).

RESEARCH METHODS

The study uses grounded theory as a qualitative research method designed to develop theories based on data collected from the field. In contrast to other research methodologies that commence with a hypothesis, grounded theory initiates with data gathering and analysis to inductively formulate a theory. Grounded theory research commences with the identification of a study problem or area of interest devoid of a pre-existing hypothesis (Miller, 2015). The observation locations are in the Ngrundul and Janti Villages, Klaten District, Central Java Province, Indonesia. Two VOEs, Karunia Sejahtera and Janti Jaya, were chosen as exemplary VOEs that succeeded in village economic sustainability through their business unit diversification strategies.

The procedure entails a series of methodical stages, encompassing data collection, coding, and the advancement of theory, all of which are executed in a recursive manner that allows each stage to inform, refine, and strengthen the others as the research progresses. The subsequent sections delineate the principal stages integral to the execution of theory-driven research, emphasizing how each step is interconnected and contributes to the overall development of grounded theoretical insights. Grounded theory research commences with the identification of a study problem or area of interest devoid of a pre-established hypothesis, thereby ensuring that the researcher does not impose preconceived assumptions or rigid frameworks onto the data. This enables the researcher to remain receptive to emergent patterns and themes from the data, allowing findings to genuinely reflect participants lived realities and contextual nuances (Budiasih & Nyoman, 2014; Miller, 2015). The open code, axial code, and selective code, generated from the

interviews and Focus Group Discussion (FGD) with NVivo 12, are then used to create local theory related to the diversification strategy used by rural enterprises. These stages collectively facilitate the rigorous construction of a theoretical model grounded in empirical evidence and shaped by iterative analysis.

RESULTS

Based on FGD and interviews with respondents in Janti VOEs, at least 10 selective codes were generated. Table 1 illustrates the axial and selective codes created based on FGD and interview coding. The selective code chosen is initial resource management, business unit development, improving economic performance, dynamics of challenges and adaptation, community empowerment, governance and transparency, institutions and regulations, partnership and innovation, VOEs transformation, and Innovation and technology.

Table 1. Selective Codes and Axial Codes Generated from Interview Janti Jaya VOEs

Selective Code	Axial Code 1	Axial Code 2	Axial Code 3
Initial resource management	Limited capital	Fishery Asset	Establishment strategy
Business unit development	Utilization of local potential	Facilitating MSMEs	Business diversification
Improving economic performance	Turnover growth	Economic chain integration	-
Dynamics of challenges and adaptation	VOE resilience	Pandemic impact	Operational hurdles
Community empowerment	SMEs empowerment	Job opportunities	Social empowerment
Governance and transparency	Financial governance	Regular reports	Unit profit sharing
Institutions and Regulations	Institutional legalization	Changes in organizational structure	Tax issue
Partnership and Innovation	External collaboration	Private support	Partnership network
VOEs Transformation	Business innovation	Long-term planning	Future vision
Innovation and technology	Digital application utilization	Transformation system	-

Figure 1 illustrates the relationship among coding based on axial and selective coding analysis. The diagrams and coding results indicate that the success of Janti Jaya VOE is attributed to robust early management, high institutional legitimacy, diversification of business units, and the implementation of digital technology. External collaborations, community empowerment, and adaptation to pandemic-related issues further enhance the sustainability of VOE. The VOE’s ambitious objective to establish itself as a family tourism center by 2027 reflects a strategy focused on innovation, technology, and socio-economic development.

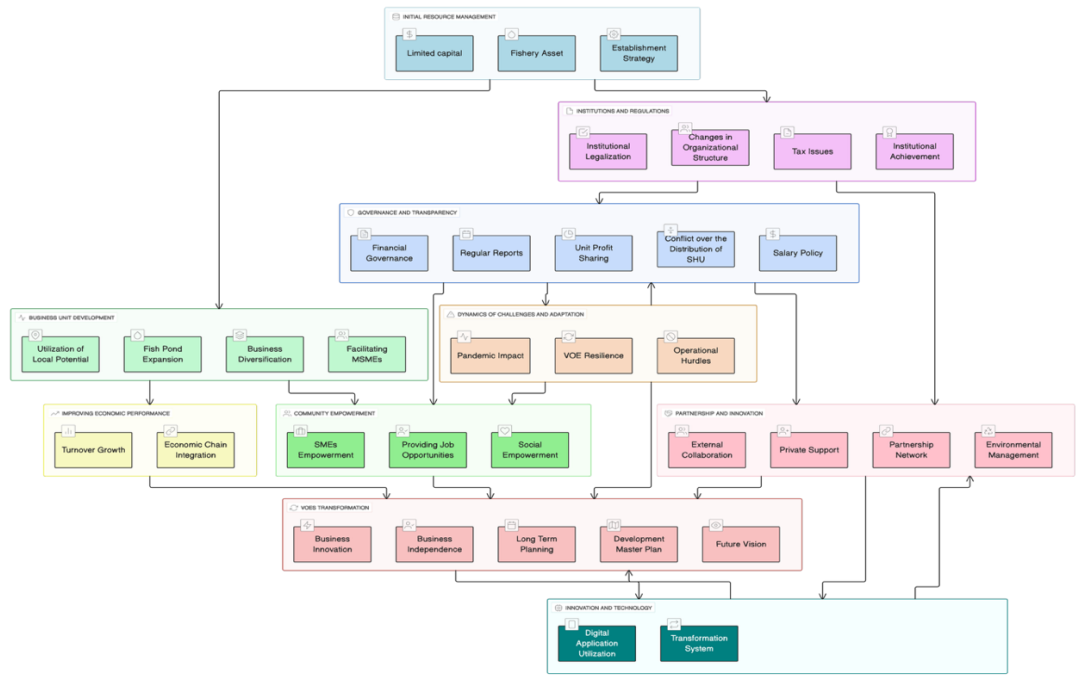


Figure 1. Selective Codes and Axial Codes Based on Focus Group Discussion with Janti VOsEs

Based on FGD and interviews with respondents in Karunia Sejahtera VOsEs, at least six selective codes were generated. Table 2 illustrates the axial and selective codes created based on FGD and interview coding. The selective codes chosen are business model and development strategy, empowerment and social impact, service and reputation management, financial management and governance, organizational constraints and capacity, and sustainability and economic value.

Table 2. Selective codes and axial codes generated from Interview Karunia Sejahtera VOsEs

Selective code	Axial code 1	Axial code 2	Axial code 3
Business Model & Development Strategy	Business development strategy	Strategy to increase tourist attractions	Pricing strategy
Empowerment and Social Impact	Strategic partnership	Social contribution	Socio-economic impact
Service & Reputation Management	Quality of customer service	Monitoring service quality	-
Financial Management & Governance	Financial management	Regulation & governance	-
Organizational Constraints and Capacity	Operational obstacles	Organizational readiness	-
Sustainability & Economic Value	Social sustainability	Economic sustainability	-

Based on Figure 1 and Table 1, a paradigm model was created (Corbin & Strauss, 2014). From the view of Janti Jaya VOE, as listed in the paradigm model in Table 3, the transformation of Janti Jaya VOE was influenced by the series of initial conditions that formed the base of the organizational development. The VOE was originally founded with a modest capital of 20 million IDR and eight fishponds allocated by the village. This scenario was exacerbated by the considerable potential of local fisheries; however, the VOE encountered regulatory impediments, including limitations on administrator salaries imposed by the village government, alongside external challenges presented by the COVID-19 pandemic, which resulted in financial losses for the tourism unit merely three days post-launch. These conditions have created a central phenomenon: significant pressure to evolve VOE from mere asset managers to active catalysts of the village

economy. This pressure arises from the necessity to enhance the village’s original income as well as from community aspirations for employment, market access for MSMEs, and village-centric economic services.

Table 3. Paradigm Model from Coding Janti Jaya VOE

Paradigm Component	Findings	Data (Interview Quote / Summary)
Causal Conditions	Restricted initial capital; local resources (water and fish); village regulations limiting remuneration; COVID-19 epidemic	“VOE Janti Jaya was established in 2018 with IDR 20 million and eight fish ponds.” “When tourism opened in 2020, lockdown occurred after only three days, causing losses.”
Central Phenomenon	Pressure to evolve from asset manager into the village’s economic catalyst	“The village demanded 60% of PAD, while we still needed to grow.”
Strategies	Diversification of business units (aquaculture, tourism, commerce); service innovations (snow machine, Sharia-compliant guesthouse, e-ticketing application); community empowerment (100 employees, 50 SMEs); digitalized financial reporting; Corporate Social Responsibility (CSR) collaborations (Aqua, Coca-Cola)	“Next plan includes homestay, syariah waterpark & camping ground.” “We use an accounting and e-ticketing application.” “CSR from Aqua supported promotion, Coca-Cola supported major events.”
Intervening Conditions	Governance disputes (profit distribution, pay regulations); village deliberation forums as bargaining platforms; pandemic adaptation; workforce reduction; competition with private investors	“Conflict with the village government over profit-sharing; the village demanded 60% of the Village’s income.” “From 30 workers, only 5–10 remained.”
Consequences	Augmented revenue (IDR 2 billion from trade; IDR 1.2 billion from tourism; total IDR 4 billion in the first semester of 2023); national acknowledgment (Top 15 “Desa Brilian” by BRI Bank); community empowerment (facilitation of SMEs, local employment, RT compensation); ongoing CSR support; long-term vision for 2027 (family tourism center).	“Initially, revenue was small, but since 2022, trade has generated IDR 2 billion.” “Janti Jaya VOE ranked Top 15 in Desa Brilian.” “Our vision by 2027 is to become Klaten’s family tourism hub.”
Core Category	Transformation of VOE via Innovation, Community Empowerment, Collaborative Governance, and Diversification Strategy	Synthesis of selective coding: innovation + empowerment + governance + diversification strategy

Source: Coding analysis (Corbin & Strauss, 2014)

In reaction to this phenomenon, the VOE executed many crucial strategies. Initially, by diversifying business through the establishment of fisheries, tourism, and Micro, Small, and Medium Enterprises (MSMEs). Secondly, through service innovations, like the introduction of snowmobile rides, proposals for sharia-compliant homestays, and the digitization of the entrance ticketing system. Third, by enhancing community empowerment, such as employing approximately 100 local workers, supporting over 50 MSMEs, and offering financial recompense to neighborhood associations (*Rukun Tetangga*/RT). Fourth, via the digitization of governance, encompassing the deployment of accounting tools and the provision of transparent online financial reports. Fifth, by forming external relationships via Aqua and Coca-Cola CSR initiatives and collaborating with local investors to facilitate business expansion.

The strategic process of VOE unfolded amid social and institutional dynamics, including disputes over profit-sharing, remuneration conflicts, and the effects of the COVID-19 pandemic, which reduced its workforce from 30 to 5–10. Competition with private fisheries pushed the VOE to innovate and differentiate services. These efforts yielded significant results: IDR 2 billion from trade, IDR 1.2 billion from tourism, totaling IDR 4 billion in one semester of 2023. The VOE empowered MSMEs, created jobs, gained national recognition, and set a 2027 vision as a family tourism hub.

Table 4. Paradigm Model from Coding Karunia Sejahtera VOE

Paradigm Elements	Findings	Data (Interview Quote / Summary)
Causal Conditions	The need to improve community welfare; Tourism potential of Umbul Ngrundul; Diversification of trade and tourism-based business units; Limited employment opportunities in the village	“Our main target is to improve the welfare of the local community, where the benefits of VOE are distributed among RT, RW, PKK, and other local institutions.”
Central Phenomenon	Transformation of VOE Karunia Sejahtera into a center of economic growth and local community empowerment through tourism, retail kiosks, and digital-based services.	“Here we manage two business units. The first one is water tourism, and the second is kiosks and retail trade.”
Context	Strategic location of Umbul Ngrundul tourism site; Majority of visitors come from lower-middle-class demographics; Strong involvement of local communities and village institutions	“We prioritize local community empowerment, including traders and employees who are recruited from the residents.”
Intervening Conditions	Facilitating Factors: Village policies and village revenue support; Community partnerships & BRI Link collaboration Constraining Factors: Limited human resources; Low managerial professionalism; Dependency on village-level policy approval	“Currently, development funds are allocated to the Village PAD, and VOE must submit proposals to the village office for business expansion.”
Action / Interaction Strategies	Diversification of business units: water tourism, kiosks, food courts, and “ <i>kereta kelinci</i> ” (mini tourist train); Digitization of payment systems and marketing strategies; Strengthening local community empowerment; Improving infrastructure, facilities, and safety measures	“We collaborate with BRI Link to facilitate digital payment services and provide VOE stalls at the tourism site.”
Consequences	Positive Impacts: Increased village revenue; Strengthened local economic empowerment; CSR programs for education and social welfare; Improved community well-being. Negative Impacts: High dependency on village-level policy decisions; Potential innovation stagnation if access to development funds remains limited	“Five percent of our net profit is allocated for educational, institutional, and community development programs.”

Source: Coding analysis (Corbin & Strauss, 2014)

Table 4 illustrates the paradigm model from coding Karunia Sejahtera VOE. The establishment and evolution of Karunia Sejahtera VOE are influenced by various critical factors. There is a highly necessity to improve the welfare of the local community, especially through the establishment of sustainable income-generating opportunities. Secondly, the tourism potential of Umbul Ngrundul, a prominent natural spring as one of the business units owned by Karunia Sejahtera VOE, offers a substantial chance for economic advancement. Thirdly, the strategic diversification of company operations, integrating water-based tourism, retail kiosks, and commerce, has been implemented to optimize revenue streams. Ultimately, the restricted employment prospects in the community have compelled VOE to serve as a catalyst for local economic development.

The strategy fundamentally involves the transformation of Karunia Sejahtera VOE into a hub of economic development and community empowerment. This change incorporates tourism development, retail enterprises, and digital service improvements. Through the utilization of local resources and the modernization of business operations, the VOE has established itself as a pivotal agent of socioeconomic transformation in the village. The environmental and social context significantly influences the tactics and outcomes of VOE. Umbul Ngrundul’s advantageous location as a favored local tourism site draws a considerable influx of visitors, predominantly from lower-middle-income demographics. Moreover, the active engagement of the local community and the backing of village institutions foster a collaborative atmosphere that fortifies the foundation of VOE’s operations.

DISCUSSION

The findings from Janti Jaya and Karunia Sejahtera VOs highlight how diversification strategies can drive rural enterprise transformation amid challenges like the COVID-19 pandemic. By expanding into agrotourism, digital services, and MSME facilitation, these VOs achieved significant revenue growth and community empowerment. For instance, Janti Jaya VO's integration of e-ticketing and CSR partnerships led to IDR 4 billion in revenue in early 2023, aligning with broader trends in Indonesian rural enterprises. This supports the idea that unrelated diversification, especially into service sectors, enhances survival during economic shocks (Yaya et al., 2022). Such strategies reduce reliance on traditional agriculture, allowing VOs to adapt to market fluctuations and build resilience.

Innovation plays a key role in effective diversification. The use of digital tools in both VOs, such as accounting applications and online payments, echoes research on how technology adoption facilitates sustainable growth in rural settings (Dhillon & Moncur, 2023). In Karunia Sejahtera VO, leveraging Umbul Ngrundul's tourism potential through mini tourist trains and kiosks improved economic sustainability and social impact. This mirrors cases where VOs diversify based on local resources to create synergies and lower risks. For example, BUMDes Bonto Sunggumanai survived the pandemic by branching into agribusiness, microfinance, and community services, generating income through integrated patterns that combine agriculture, fisheries, and handicrafts.

Karunia Sejahtera VO functions within a multifaceted environment shaped by both facilitating and constraining elements. From this viewpoint, contributing elements are village rules and village revenue, which facilitate financial and operational adaptability. In addition, collaborations with BRI Link and community relationships augment digital payment services and bolster business sustainability. Nonetheless, the limiting factors include Inadequate human resources and a lack of trained specialists, which hinder operational efficiency. Moreover, inadequate management professionalism poses difficulties in strategic decision-making, and the reliance on village-level policy clearance constrains VO's autonomy in broadening its economic ventures.

The findings enforce previous research demonstrating that diversification strategies are pivotal for rural enterprise resilience, poverty alleviation, and sustainable development; however, their efficacy is significantly influenced by contextual factors (Loison, 2015; Isbell et al., 2017; Hufnagel et al., 2020; Kolawole et al., 2023). The ecological and economic advantages of diversification in agriculture are extensively documented, particularly in the long term; however, short-term trade-offs and barriers to adoption continue to exist (Rosa-Schleich et al., 2019; Kurdyś-Kujawska et al., 2021; Reckling et al., 2023; Zou et al., 2024; Mihrete & Mihretu, 2025). In fisheries, the evidence is more ambiguous, with numerous studies indicating mixed or constrained effects, underscoring the necessity for more defined conceptual frameworks and stringent impact evaluation (Roscher et al., 2022). Tourism and agrotourism present viable avenues for diversification; nonetheless, their efficacy is contingent upon conducive conditions, including infrastructure, governmental endorsement, and market expansion (Ferraz et al., 2021; Sukosyah et al., 2025).

Janti Jaya and Karunia Sejahtera VO's diversification into agrotourism aligns with the growing advocacy of rural tourism as a strategy to diversify economies, create jobs, and reduce poverty. Success depends on infrastructure, market access, entrepreneurial capacity, and supportive regulations, though agrotourism often faces challenges such as limited finance, regulatory barriers, and weak demand (Li et al., 2019; Ferraz et al., 2021; Kolawole et al., 2023). The study suggests cooperative networks, including joint ventures based on natural resources, reflecting trends in North Toraja, where revenue prospects and demand foster resilience (Yusriadi et al., 2024). These findings extend grounded theory by emphasizing innovation, digital transformation, and institutional support in shaping VO outcomes. Policymakers should prioritize training, funding, and

collaborations, while future studies examine ecological impacts and regional comparisons.

CONCLUSION

This study creates a grounded theoretical framework that explains how VOEs use economic diversification as a strategic road to resilience, competitiveness, and community empowerment in rural Indonesia. The study uses NVivo-based coding of interviews and focus group discussions to identify four interconnected drivers of effective diversification: innovation, collaborative governance, digital transformation, and community participation. The findings demonstrate that diversification into agrotourism, retail commerce, MSME facilitation, and digital-based services has enabled VOEs to significantly improve economic performance and social outcomes. Janti Jaya VOE, for instance, successfully implemented e-ticketing systems, sharia-compliant homestays, and CSR partnerships, generating IDR 4 billion in revenue within the first semester of 2023 and earning recognition among the Top 15 “Desa Brilian” in Java. Similarly, Karunia Sejahtera VOE leveraged Umbul Ngrundul’s tourism potential and digital payment innovations to enhance local economic sustainability and foster community well-being.

This study theoretically enhances the literature on rural enterprise diversification by applying grounded theory to elucidate how VOEs develop context-sensitive strategies amid intricate institutional, social, and environmental contexts. The findings provide practical insights for policymakers, local governments, and community leaders to develop integrated frameworks for VOE empowerment, emphasizing digital adoption, financial governance, and cross-sectoral collaborations. Nonetheless, the findings also indicate enduring structural impediments, such as governance conflicts, reliance on policy endorsement, deficiencies in managerial competencies, and inadequate infrastructure, which may hinder the transformation of VOEs. Future study should investigate longitudinal and cross-regional comparisons, highlighting the significance of digital innovation, sustainable funding, and adaptive business models to enhance VOEs’ contributions to inclusive rural development.

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