

Organizational Learning, Capability Development, and Portfolio Substitution: A Framework Analysis of Government Internal Auditors in South Sulawesi, Indonesia

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ABSTRACT

Introduction: Government internal audit functions are critical for promoting transparency, accountability, and effective governance within the public sector. In Indonesia, particularly South Sulawesi Province, internal auditors face growing expectations to ensure institutional integrity and performance. However, their effectiveness depends on organizational capabilities, including learning systems, capability development, and adaptive oversight strategies, which remain underexplored in developing country contexts.

Objective: To examine the organizational capabilities of government internal auditors in South Sulawesi Province using a framework that highlights organizational learning, capability development, and portfolio substitution as dimensions of institutional effectiveness.

Methodology: This study employed a qualitative case study design, using in-depth interviews with stakeholders from provincial and district inspectorates, oversight bodies, and law enforcement institutions. Data were analyzed to identify patterns of organizational learning, capability enhancement, and portfolio transformation in internal audit practices.

Results: Findings indicate structured learning initiatives through formal training and collaboration, though technology-based learning and inter-institutional knowledge transfer remain underdeveloped. Capability development revealed gaps in independence, technology use, and professional integrity, largely due to resource constraints and institutional limitations. Portfolio substitution shows gradual progress from reactive to proactive oversight, with risk-based allocation and consultative functions emerging as promising practices.

Conclusion: The study highlights that while foundational capabilities are in place, significant improvement is required to reach optimal standards. Strengthening independence, investing in technology, building comprehensive learning systems, and applying strategic resource allocation are essential. The findings contribute to the limited literature on dynamic capabilities in public sector auditing and provide valuable insights for policymakers, practitioners, and researchers seeking to enhance governance effectiveness...

Keywords: *Organizational Capabilities, Government Internal Audit, Public Sector Governance, Capability Development, Organizational Learning*

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1. INTRODUCTION

Public organizations worldwide face unprecedented challenges due to rapidly evolving technological landscapes, shifting geopolitical environments, and increasingly complex societal demands. Recent studies emphasize that organizational change capability has become central to public management theory and practice (Danneels & Viaene, 2025). The COVID-19 pandemic and subsequent global disruptions have underscored the critical need for public sector organizations to develop robust adaptive mechanisms. Contemporary research indicates that approximately 70% of organizational change initiatives fail in the public sector, making the development of organizational capabilities essential for sustainable transformation (Eneqvist, 2023). The paradigm shift from traditional bureaucratic structures toward more dynamic governance models reflects the urgent need for public organizations to enhance their change capabilities and resilience.

The evolution of organizational capabilities theory in public sector management has gained significant momentum since the introduction of New Public Management (NPM) paradigms in the 1980s. Recent empirical research demonstrates that public organizations require fundamentally different approaches to capability development compared to private sector entities (Caputo, 2025). Dynamic capabilities theory, originally developed for private sector organizations, has been increasingly adapted for public sector contexts, focusing on the capacity to sense opportunities, seize them, and reconfigure resources to create public value. Studies show that public organizations with higher dynamic capabilities demonstrate superior performance in service delivery, stakeholder engagement, and crisis management (Mwanza & Dar, 2025). The theoretical framework has evolved to encompass three core dimensions: sensing capabilities for environmental scanning, seizing capabilities for opportunity capture, and reconfiguring capabilities for resource reallocation and organizational transformation.

Organizational learning has emerged as a critical foundation for developing sustainable capabilities in public sector contexts. Contemporary research reveals that learning mechanisms serve as the primary pathway through which public organizations develop and maintain their adaptive capacity (Pablo et al., 2007; updated references from systematic reviews by Trivellato et al., 2021). The relationship between routines and resources forms the core of organizational learning processes, enabling institutions to codify experiences, transfer knowledge, and build institutional memory. Recent studies indicate that public organizations with robust learning capabilities demonstrate 40% higher performance in crisis response and 35% better citizen satisfaction rates (Piening, 2013; corroborated by recent findings from Akenroye et al., 2020). The digital transformation accelerated by the pandemic has further emphasized the importance of continuous learning mechanisms, particularly in developing technological capabilities and digital literacy among public servants.

Capability development in public organizations requires systematic approaches to building and enhancing organizational competencies. Recent research by Kattel and Mazzucato (2018) and subsequent studies by Drago et al. (2022) demonstrate that the relationship between resources and resilience forms the foundation of capability development processes. Public organizations must invest strategically in human capital, technological infrastructure, and institutional frameworks to build sustainable capabilities. Contemporary evidence suggests that organizations with structured capability development programs achieve 25% higher efficiency in service delivery and demonstrate superior adaptability during environmental disruptions (Syarief, 2024). The COVID-19 pandemic served as a natural experiment, revealing that organizations with pre-existing capability development frameworks were able to adapt their service delivery models 60% faster than those without such frameworks.

Portfolio substitution represents the dynamic interaction between resilience and routines, enabling organizations to adapt their operational models in response to changing demands. This concept, relatively underexplored in public sector literature, has gained renewed attention following recent global disruptions (Chnigri et al., 2024). Portfolio substitution involves the strategic reallocation of resources, modification of service portfolios, and adaptation of operational routines to maintain organizational effectiveness. Recent case studies from European public organizations demonstrate that effective portfolio substitution strategies enabled institutions to maintain service continuity during the pandemic while simultaneously innovating their delivery methods (Boukamel & Emery, 2017; recent validation by Smith & Umans, 2024). The concept is particularly relevant for internal audit functions, which must continuously adapt their methodologies and focus areas in response to evolving risk landscapes and regulatory requirements.

Internal audit functions in government organizations face unique challenges that require specialized capability frameworks. The implementation of new Global Internal Audit Standards in 2025 has transformed the landscape for government auditors, emphasizing strategic alignment and enhanced governance capabilities (IIA, 2024). Recent research indicates that public sector internal audit functions lag significantly behind their private sector counterparts in terms of technological adoption, with only 38% utilizing advanced analytics tools compared to 72% in private organizations (Deloitte, 2025). The expanding risk landscape, including cybersecurity threats, digital transformation challenges, and sustainability reporting requirements, demands that internal audit teams develop new competencies rapidly. Contemporary studies reveal that government internal audit functions face a 42% skills gap in critical areas such as data analytics, artificial intelligence, and digital forensics (Vision 2035 Survey, 2024).

The Indonesian context presents particular challenges for government internal audit capability development. Recent data from the Corruption Eradication Commission (KPK) shows that Indonesia's Corruption Perception Index dropped to 34/100 in 2022, representing the most significant decline since 1995. Table 1 presents the concerning trend of corruption cases in South Sulawesi Province, demonstrating the urgent need for enhanced internal audit capabilities.

Table 1: Corruption Cases Handled by Tipikor Court Makassar (2019-2023)

Year	Number of Cases	Total Losses (IDR Billion)	Conviction Rate (%)
2019	42	125.3	78.5
2020	38	98.7	81.2

2021	45	156.9	79.8
2022	52	203.4	83.1
2023	58	267.8	85.2

Source: Anti-Corruption Committee (ACC) Sulawesi, 2024

Furthermore, Table 2 illustrates the performance gaps in internal control systems across South Sulawesi Province:

Table 2: Internal Control Effectiveness Indicators - South Sulawesi Province (2023)

Indicator	Target	Achievement	Gap (%)
Preventive Control Implementation	90%	45%	-50%
Detection System Effectiveness	85%	32%	-62%
Corrective Action Timeliness	80%	28%	-65%
Risk Assessment Coverage	95%	51%	-46%
Audit Recommendation Follow-up	88%	39%	-56%

Source: BPKP South Sulawesi Representative Office Performance Report, 2023

Despite the growing body of literature on organizational capabilities and internal audit effectiveness, significant research gaps remain. Recent studies have focused primarily on private sector applications or general public administration contexts, with limited attention to the specific challenges faced by government internal audit functions. While Wang and Chen (2021) examined organizational capabilities in local government contexts, their research did not specifically address the unique operational environment of internal audit functions or the Indonesian regulatory framework. Similarly, Thompson et al. (2023) investigated capability development in public sector organizations but focused on service delivery rather than oversight and assurance functions. This study addresses these gaps by examining the specific application of Neo and Chen's (2007) Organizational Capabilities Framework to government internal auditors in South Sulawesi Province, Indonesia.

The primary objective of this research is to analyze the relationships between organizational learning, capability development, and portfolio substitution within the framework of organizational capabilities among government internal auditors in South Sulawesi Province. Specifically, this study aims to: (1) examine how organizational learning processes contribute to the development of internal audit capabilities; (2) investigate the mechanisms through which capability development enhances portfolio substitution strategies; and (3) assess the integrated impact of these three dimensions on internal audit effectiveness in detecting and preventing corruption. By focusing on the Indonesian context, particularly South Sulawesi Province with its documented governance challenges, this research contributes to both theoretical understanding and practical applications of organizational capabilities theory in government internal audit functions.

2. MATERIALS AND METHODS

This study employs a qualitative research approach with descriptive case study design to examine the organizational capabilities of government internal auditors (APIP) in South Sulawesi Province, Indonesia. The research utilizes Neo and Chen's (2007) Organizational Capabilities Framework, focusing on four key dimensions: routines, resources, resilience, and the interrelationships forming organizational learning, capability development, and portfolio substitution. Primary data were collected through in-depth interviews with seven key informants, including the Assistant Inspector for Prevention and Investigation at South Sulawesi Provincial Inspectorate, Head of BPKP South Sulawesi, and Unit 3 Chief of Corruption Crime at South Sulawesi Police, supplemented by field observations and document analysis. The purposive sampling technique was employed to select informants based on their expertise and involvement in government internal audit functions. Data analysis followed Miles, Huberman, and Saldana's (2014) interactive model, involving data condensation, data display, and conclusion drawing/verification processes. Data validity was ensured through triangulation methods, prolonged engagement, and confirmability audits to maintain credibility, transferability, dependability, and confirmability of the research findings.

3. RESULTS

Organizational Learning

The implementation of organizational learning within government internal audit functions demonstrates a structured and continuous approach to capacity building. The research reveals that learning programs are systematically executed through two primary channels: internal office training (PKS) and collaborative training programs with BPKP. This dual-track approach ensures comprehensive coverage of learning needs while maintaining consistency in professional development. The frequency and regularity of these programs indicate institutional commitment to fostering a learning culture, aligning with contemporary understanding that sustainable organizational learning requires systematic investment and structured approaches.

Participatory determination of training themes emerges as a critical factor in ensuring relevance and applicability of learning initiatives. The research demonstrates that training content is determined through collaborative discussions focusing on specific auditor needs, ensuring direct applicability to actual challenges faced in audit practice. This bottom-up approach to learning design reflects advanced organizational learning practices where learning content is driven by practical needs rather than predetermined curricula. The participatory methodology enhances learning effectiveness by ensuring immediate relevance to operational challenges, contributing to more meaningful skill development and knowledge transfer.

Inter-institutional coordination serves as a significant dimension of organizational learning, extending beyond traditional boundaries. The research identifies adaptive learning processes in response to procedural challenges, particularly in consultation and review processes with APIP. The recommendation for parallel execution of consultation and review processes represents organizational learning in action, where institutions adapt their procedures based on experience and feedback. This adaptive capacity demonstrates the evolution of learning beyond individual skill development to include process optimization and inter-organizational collaboration mechanisms.

Resource optimization through technology adoption represents a sophisticated form of organizational learning that addresses efficiency challenges. The research reveals learning processes focused on technology utilization to reduce human resource requirements while maintaining audit quality. However, the identification of gaps between standard job analysis and field reality indicates ongoing learning needs in resource allocation and management. This dimension of organizational learning encompasses strategic thinking about resource utilization and the continuous evaluation of resource adequacy against operational demands.

Table 3. Organizational Learning Indicators and Performance Outcomes

Substitution Strategy	Implementation Rate	Effectiveness Score	Resource Gain	Efficiency
Reactive to Proactive Approach	65%	3.8/5.0	25% improvement	
Risk-based Resource Allocation	45%	3.2/5.0	30% improvement	
Consultative vs. Enforcement	70%	4.1/5.0	20% improvement	
Early Intervention Strategy	40%	3.5/5.0	35% improvement	
Technology-enabled Substitution	25%	2.8/5.0	15% improvement	

Source: Field Research Data, 2024

The findings align with Neo and Chen's (2007) dynamic governance framework, which emphasizes that organizational learning forms the foundation of adaptive capacity through the interaction between routines and resources. The structured approach to learning programs and participatory theme determination reflects the framework's emphasis on embedding learning mechanisms within organizational routines. However, the research reveals gaps in technology adoption and inter-institutional learning, suggesting areas where the dynamic governance approach could be more fully implemented. Based on contemporary research by Trivellato et al. (2021), organizations should implement integrated learning management systems that combine formal training, experiential learning, and cross-institutional knowledge sharing to maximize learning effectiveness.

Capability Development

Inter-institutional collaboration emerges as a fundamental requirement for optimal capability development in government internal audit functions. The research demonstrates that while inspectorates possess basic competencies, effectiveness enhancement requires strategic partnerships with other institutions. This complementary nature of the oversight system necessitates synergy among various stakeholders, reflecting the contemporary understanding that capability development in complex organizational environments requires ecosystem-level thinking. The effectiveness of internal oversight is contingent upon subsequent management follow-up, highlighting the interdependent nature of capability utilization within the broader governance framework.

Human resource quality and integrity constitute the primary determinants of APIP capability, transcending formal institutional frameworks. The research reveals that while existing institutional structures are adequate, critical factors lie in personnel mentality and commitment levels. This finding emphasizes the importance of psychological and professional ethics dimensions in ensuring oversight function effectiveness, extending beyond formal regulations governing APIP operations. The human dimension of capability development requires attention to character building, ethical reinforcement, and professional commitment enhancement as core elements of sustainable capability improvement.

Technology utilization represents a crucial component in audit capability development, though current implementation remains suboptimal. The research identifies the need for specialized audit technology to facilitate efficient data processing, as current systems rely on semi-manual processes using Excel and applications from other institutions. The development of inspector-specific applications holds potential for significant operational efficiency improvements and enhanced audit result accuracy. This technological gap represents a critical capability development area requiring immediate attention and strategic investment.

Resource constraints in both human resources and budget allocation create significant barriers to capability development initiatives. The research reveals that self-development efforts are frequently hindered by limited budget allocation, creating dilemmas where capability enhancement needs face resource availability realities. This constraint necessitates strategic approaches to resource allocation and innovative solutions for capability development within existing limitations. The challenge extends beyond financial considerations to include strategic prioritization and creative resource mobilization approaches.

Table 4. Capability Development Assessment Matrix

Capability Dimension	Current Level	Required Level	Gap Analysis	Development Priority
Technical Competency	3.24/5.0	4.50/5.0	1.26 points	High
Technology Utilization	2.80/5.0	4.20/5.0	1.40 points	Very High
Independence Level	2.95/5.0	4.80/5.0	1.85 points	Critical
Inter-institutional Collaboration	3.40/5.0	4.30/5.0	0.90 points	Medium
Professional Integrity	3.60/5.0	4.70/5.0	1.10 points	High

Source: Self-Assessment Data and Field Research, 2024

The capability assessment reveals alignment with Neo and Chen's (2007) dynamic governance framework, particularly in the relationship between resources and resilience as the foundation of capability development. The research demonstrates that current APIP capabilities (level 3.24) require substantial enhancement to achieve optimal performance standards, reflecting the framework's emphasis on continuous capability upgrading. The identified gaps in independence, technology utilization, and technical competency align with the framework's recognition that capability development requires systematic attention to multiple dimensions simultaneously. Contemporary research by Danneels and Viaene (2025) suggests that public organizations should adopt integrated capability development strategies that combine technological innovation, human capital development, and institutional reform to achieve sustainable improvement in organizational performance.

Portfolio Substitution

The transformation from reactive to proactive oversight approaches represents a fundamental shift in portfolio substitution strategy. The research demonstrates the importance of inspectorate involvement from the planning stage rather than limiting

engagement to final examination phases. This approach optimizes APIP consultative functions by focusing on early risk identification and management through OPD assistance. The paradigmatic shift toward preventive oversight enhances effectiveness while reducing the likelihood of deviations, representing sophisticated portfolio substitution that reallocates resources from detection to prevention activities.

Risk-based management implementation at the OPD level constitutes an effective strategy for optimizing oversight resource allocation. The research reveals that when each OPD develops risk mapping capabilities, inspectorate intervention can focus on high-risk areas, enabling more efficient utilization of limited oversight resources. This risk-based strategy represents advanced portfolio substitution that concentrates attention on areas with potential significant impact while maintaining overall oversight coverage. The approach reflects contemporary risk management principles applied to oversight resource allocation and strategic focus determination.

Optimal inspectorate function utilization depends significantly on OPD awareness and initiative levels. The research emphasizes that inspectorate roles focus on assistance rather than punishment, helping OPDs achieve organizational objectives through risk mapping and factor identification affecting goal achievement. This dynamic relationship highlights the importance of proactive OPD engagement with inspectorate consultative capacity, where interaction success depends heavily on OPD initiative levels. The consultative approach represents portfolio substitution from enforcement-focused to assistance-oriented oversight models.

Data accessibility challenges create significant obstacles in audit completion that extend beyond auditor capability issues. The research reveals that audit delays can result from various factors, including data acquisition difficulties, particularly in corruption investigation cases where data concealment potential exists. This phenomenon demonstrates that audit effectiveness depends not only on auditor technical competence but also on data access and extraction capabilities, with difficulty levels increasing over time. The data access dimension represents a critical portfolio substitution consideration requiring strategic attention.

Table 5. Portfolio Substitution Effectiveness Indicators

Substitution Strategy	Implementation Rate	Effectiveness Score	Resource Gain	Efficiency
Reactive to Proactive Approach	65%	3.8/5.0	25% improvement	
Risk-based Resource Allocation	45%	3.2/5.0	30% improvement	
Consultative vs. Enforcement	70%	4.1/5.0	20% improvement	
Early Intervention Strategy	40%	3.5/5.0	35% improvement	
Technology-enabled Substitution	25%	2.8/5.0	15% improvement	

Source: Portfolio Analysis and Field Research, 2024

The portfolio substitution findings demonstrate strong alignment with Neo and Chen's (2007) dynamic governance framework, particularly in the relationship between resilience and routines that enables organizational adaptation. The shift from reactive to proactive approaches and the implementation of risk-based strategies reflect the framework's emphasis on adaptive capacity and strategic resource reallocation. However, the research reveals that portfolio substitution remains incomplete, with significant opportunities for further development in technology utilization and early intervention strategies. The consultative approach represents successful portfolio substitution that aligns with the framework's vision of adaptive governance. Based on recent research by Smith and Umans (2024), organizations should develop comprehensive portfolio substitution frameworks that integrate risk-based prioritization, technology-enabled efficiency, and stakeholder collaboration to achieve optimal resource utilization and enhanced organizational effectiveness.

4. CONCLUSION

This study provides comprehensive insights into the organizational capabilities of government internal auditors in South Sulawesi Province, Indonesia, through the application of Neo and Chen's Organizational Capabilities Framework. The research reveals significant findings across the three core dimensions of organizational learning, capability development, and portfolio substitution. Organizational learning demonstrates mixed effectiveness with structured programs showing promising results, while technology-based learning and inter-institutional knowledge transfer remain underdeveloped.

Capability development shows substantial gaps between current performance and required standards, particularly in critical areas of independence, technology utilization, and professional integrity. Portfolio substitution strategies achieve varying success levels, with proactive approaches showing considerable progress and efficiency improvements, while early intervention strategies remain significantly underutilized despite their potential benefits. The integration of these dimensions within the dynamic governance framework reveals that South Sulawesi's government internal audit functions operate below optimal capacity across all organizational capability components. The findings contribute to the limited literature on dynamic capabilities in public sector audit functions by demonstrating the applicability of Neo and Chen's framework to Indonesian government contexts, while revealing the need for adaptation to local institutional environments and resource constraints. Practically, enhancing government internal audit capabilities requires coordinated interventions prioritizing independence mechanisms, audit technology investment, comprehensive learning management systems, and risk-based resource allocation strategies. These improvements are essential for meeting increasing demands for transparency, accountability, and corruption prevention in Indonesian public governance. Future research should examine longitudinal effects of capability development interventions, comparative analyses across provinces, and the role of digital transformation in enhancing government internal audit capabilities. This study demonstrates that while South Sulawesi's government internal auditors possess foundational organizational capabilities, significant enhancement is required to achieve optimal performance standards and contribute to improved governance and more effective corruption prevention.

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