Regional Owned Enterprise Policy Strategies to Increase Local Government Revenues in Indonesia

Azhari Aziz Samudra a, Evi Satispi b, Agus Suradika c, a Professor, Department of Public Administration, Postgraduate Doctoral Program, Universitas Muhammadiyah Jakarta. b Associate Professor, Department of Public Administration, Faculty of Social and Politic Sciences, Universitas Muhammadiyah Jakarta. c Professor, Department of Public Administration, Postgraduate Doctoral Program, Universitas Muhammadiyah Jakarta. Email: aazhariazis.samudra@umj.ac.id, bevi.satispi@umj.ac.id, cagus.suradika@umj.ac.id

This study aims to find out how to increase local revenue (PAD). In Indonesia, PAD is a source of regional income, part of which comes from regionally owned enterprises. PT. Bina Bangun Wibawa Mukti (BBWM) is a public regional company founded in 2002 and has contributed significantly to generating regional income, but from 2016 until now, its revenues and profits have decreased, especially with the outbreak of the Covid-19 pandemic. Field observations were carried out by direct research into the location of the activity. This research was conducted for nine months, using qualitative methods with in-depth interviews and focus group discussions, with 14 stakeholders and 28 staff (purposive sampling). The results of the study conclude that to increase income and return to the growth stage, the company carried out a strategy of diversifying liquefied petroleum gas (LPG) products into propane and butane. Strategic policies and innovations are continued in other businesses such as hotels, waste management and parking management. With these strategy and innovations, this regional company is expected to return to the growth stage.

**Key words:** Municipalities, Regional Owned Enterprises, State Government, Policy Strategies, Innovation.
Overview

Bekasi Regency is one of 514 districts / cities in Indonesia. This district has three regionally owned enterprises (BUMD), namely PT. Bekasi Putera Jaya (BPJ), PT. Bumi Bekasi Jaya (BBJ) and PT. Bina Bangun Wibawa Mukti (BBWM). BBWM was founded with the aim of become a holding company engaged in the energy, oil and gas, infrastructure, industry, trade and services sectors. The company's vision is to become a leading company in the fields of energy, natural resources and infrastructure that is managed professionally and excels in human resources as well as driving the regional economy. Their motto is: Innovative, Trustworthy and Excellence.

Since it was founded, BBWM has contributed a significant amount to local revenue. This contribution not only came from the sale of oil and gas, but also from the payment of land and building taxes. As quoted from Samudra (2020:186), the government of Indonesia certainly has experienced a shortfall in the tax and oil and gas investment sectors, but Indonesia has never made a surplus income (157%) from oil and gas, which also has a decreasing impact. They also received the Best Oil and Gas Company of the Year Award, Corporate Governance and Services, submitted by Seven Sky Media, the Best BUMD Award 2018, the Patra Nirbhaya Karya Utama Award, and the Company Award with Safe Working Hours from the Directorate General of Oil and Gas in 2019. To increase their revenue, the company is attempting to build two gas refineries especially for LPG as an investment development. This step is carried out in line with the large gas potential of the Bekasi Regency, which can reach 70 million cubic feet per day from the current production amount of 32 million cubic feet per day. Apart from having a large natural gas potential, also has high business potential of participation in fulfilling LPG needs, reaching 40 percent of the total LPG consumption demand for Java Island of 99 000 tonnes per day. Of the total participation, about 80 percent of LPG is supplied for industrial needs and the remaining 20 percent is distributed to the community, which is called subsidised LPG.

In 2018, the company changed its strategy from passive to actively investing. PT BBWM is supported by professional human resources, the company has mastered gas processing technology and the company owns capital without depending on other parties. These three things make BBWM very confident that it will be able to build a fast-growing company to meet people's gas needs. For the construction of a new gas refinery, the company needs USD 35 million with details of around USD 25 million for refinery infrastructure and land, and USD 10 million for the procurement of distribution pipes from the refinery to customers. New gas refineries are capable of producing LPG equivalent to existing gas refineries.

The studies that have been carried out as a form of feasibility study explain that the potential for the oil and gas fields is good as they still contain a lot of oil and gas. It is estimated that in 2022 it will receive billions of rupiah in revenue. The potential is found in the Tambun field,
Pondok Makmur field, Pondok Mulya field, Pondok Tengah field, Pondok Berkah field, as well as other fields in Bekasi Regency which are still in the exploration process.

**Figure 1.** Potential of oil and gas fields, Bekasi

![Potential of Oil and Gas Fields, Bekasi](image)

Source: PT BBWB, November 28, 2019.

Even though the company has built a refinery, since 2016 until now, a very significant decrease in revenue and profit has continued. The impact of Covid-19 that occurred at the end of 2019 and is still continuing has not allowed the company to develop its investment. From the two curves below, the company’s income curve from 2015-2019 and the profit (loss) curve for 2015-2019 explain the decline in company revenue and profit from that period, 2016-2019.

**Figure 2.** BBWM ROE Revenue and income curve for the years (2016-2020)

![BBWM ROE Revenue and income curve](image)

Caption: ROE = Regionally Owned Enterprise (BBWM)


**Problems**

In 2018, the movement of the gas business became increasingly erratic, full of challenges due to the continuing decline in world gas prices. On December 31, 2018, CNBC media, Indonesia, provided an important evaluation of the world gas business, where 2018 was the worst year for weakening world gas prices since 2015. However, early 2019 did not have encouraging results,
according to katadata.co.id notes, Indonesian oil prices touched USD 60.84 per barrel in September. This was triggered by plans to limit OPEC and non-OPEC oil production as well as the decline in US oil stocks. But then there was a decline and this was exacerbated by the trade war between the USA and China. The dispute between the two countries has rocked the global economy as well as world financial markets. The world oil price is assumed to reach USD53 per barrel and in November 2020 it will only reach USD 38.07 per barrel. The decline was also triggered by the policies of many countries regarding the transmission of the Covid-19 virus (SARS CoV-2), which reduced the level of workers’ working hours. In addition to the Covid-19 problem (in which the Indonesian government prohibits many activities, thus reducing working hours) and the high prevalence of Covid-19, there is now a national policy adopted by the central government (PT. Pertamina Nasional, a regulating, state owned enterprise (BUMN) owned by the central government) that prohibits regionally owned enterprises (BUMD) from exploring further. Thus, researchers need to understand how the strengths, weaknesses, opportunities and threats actually occur in the company, what policies should be taken as a public company, as well as how companies carry out policies to maintain (survival) during the Covid-19 pandemic.

Research Objectives and Methods

The purpose and research objectives are to find out what policies must be carried out by BBWM as a public company with continued decline in the company's production level, and to discover how the strategy and policy innovation were carried out by BBWM so as to maintain survival during the policies of the central and regional governments, concerning the transmission of Covid-19, that reduce activities. This research was sponsored by BBWM, and research funds come from the Bekasi Regency Regional Budget. This research was conducted between January 04 and September 03, 2020, after which a conference was held with the title; BBWM 18th Annual Meeting, located in Bekasi City, West Java, on date; October 01, 2020.

This study uses a qualitative method and to conduct this research, basic data is needed. Basic data is divided into 2, namely secondary data and primary data. Secondary Data; required data on the results of feasibility studies, business asset assessments, business profiles, as well as Bekasi Regency in numbers and so on. Primary data; obtained through interviews and field observations. Field observations were carried out by direct observation of the location of the activity. In-depth interviews were conducted by asking questions to stakeholders, then a focus group discussion (FGD) was conducted to 14 stakeholders using the purposive sampling method.
Planning

A business organisation is founded with the intention to survive and to attain growth in the long term (going concern). This intention can be realised if it is planned carefully, starting from the formulation of the vision and mission, objectives, strategies, policies, programs and activities, costs required and performance measurement and evaluation of activities as feedback in efforts to improve management and, or leadership. According to Thomas and Hunger (2005:16), the preparation of a business plan can be divided into three stages: the first is the strategy formulation stage, which includes the establishment of a vision / mission, goals, strategies and policies; the second is the strategy implementation stage, namely the formulation of programs and activities, determining activity costs, and determining targets / results to be achieved, and; the third is performance evaluation and control. The results of this evaluation represent feedback in the company's control, whether it is in line with the vision and mission and objectives outlined. This is shown diagrammatically in figure 2. The company divides planning into long-term planning (20-25 years), medium-term plans (4-5 years) and budget work plans (annual).

Organising Vision and Mission Formulation

Thomas and Hunger (2005: 19) explain that a vision is a statement of future conditions that the organisation wants to achieve. Vision can be interpreted as the ideal ideals of the organisation in the future that can be achieved in accordance with the potential and opportunities they have. According to them, the vision is a picture of the ideal state of the organisation in the future, which provides an important explanation. Vision can be defined as a statement that shows the purpose of establishing the organisation and the scope of activities that must be carried out, while the mission is a statement that drives the vision. The mission is a task that is required as an obligation to be carried out for the achievement of company goals. The formulation of the vision and mission must be able to reveal the answers to questions (a) What exactly is the organisation doing; (b) What is the actual line of business of the company; (c) What is the actual product; (d) What does the organisation's business look like and who are its customers; (e) Who owns the company and what are their wishes; (f) How does the company operate its business?

Competition Analysis Theory

According to Porter (2001), the conditions of competition in an industry (a collection of similar companies) are influenced by five factors, namely the level of existing competition, the potential for new entrants, access to suppliers, access to marketing, and the possibility of substituting goods (figure 3). The competition analysis referred to here is focused on the
competition that occurs between modern and traditional businesses. To find out the position of the company, a SWOT analysis was carried out. This is an assessment of internal weaknesses and strengths as well as external opportunities and threats in the framework of achieving company goals.

**Figure 3.** Determining company position

![SWOT Analysis Diagram]

Source: Ansoff, H. Igor, Strategies for Diversification, HBR, (1957:114)

The meanings of the company's position above are:

a. Growth / Aggressive Strategy (Quadrant I), when internal and external conditions show more advantages than disadvantages.

b. Diversification / Outward Orientation Strategy (Quadrant II), if the internal position shows more strength, while external conditions show more threats.

c. Stability / Rationalisation Strategy (Quadrant III), if most of the internal conditions are weak, but the external conditions show more opportunities.

d. Survival / Defensive Strategy (Quadrant IV), if most of the internal and external conditions are weak, or don't support the company's development.

**Life Cycle Curve Theory**

In the theory of the life cycle curve, it is explained that the product / organisation cycle goes through the stages of its life process starting from soft launching, grand launching, changing
from the initial target, then starting to fight and compete with similar organisations, to passing competition and competition that has a wide distribution level (Duncan, 2006). After reaching its peak, the product will naturally decline (Bearden, Ingram, LaForge, 2004). Organisational changes were then made to support innovation and avoid a drastic decline due to burnout. In the life journey of a product, there are five levels (Kotler 1997), namely:

a) Product Forming. A product is planned starting from an idea. Then products begin to be made and created in real form.
b) Product Introduction. The second stage is product introduction by starting marketing to the target market.
c) Product Growth. In this stage, there is an increase in sales. Generally, at this stage there are competitors who begin to enter the market.
d) Product maturation. Products that are successfully accepted by the market will survive this phase. However, a product manager must always innovate to maintain sales and product existence.
e) Product Dropping. At this stage, there is a decrease in sales figures. This can be caused by products that are unable to compete with competitors.
f) The product may also experience burnout. This saturation can be caused by various things, including:

1) External saturation: consumers are saturated and consumers are bored because of the same products.
2) Internal saturation: employees ranging from top level to saturated employees and do not have the will / ability to innovate.
3) Saturation of the source: this is the saturation of natural resources that have been explored and the reduction of existing natural resources.

Analysis and Research Results

Analysis of Company Conditions

During the initial ten years of the Bekasi Regency Government built BBWM, company activities were carried out by Odira, covering development, management and development activities. That is, in the first ten years the company worked in a cooperative relationship between the district government and PT. Odira. In 2016 the company was handed over to BBWM. At that time there was no in-depth evaluation of the activities that PT Odira had undertaken for the previous ten years. It was only stated at the time in the form of a note that the company (BBWM) was in good condition. In 2017, BBWM started revitalising because the physical condition of the machines and instruments to produce products had started to break down and needed repair. The area of the BBWM refinery is around 4 Ha, of which 2 Ha is for production while the other 2 Ha is for ponds and the provision of hydrant pipes that need to be provided in the event of a fire. There are three BBWM products, namely: LPG, condensate and
lean gas. In 2017, BBWM was able to produce around 10 tonnes of gas, both alkaline (LPG and condensate) and dry (lean gas), but currently they produce only around 7-7.5 tonnes.

The Impact of this central government policy, BBWM that it can no longer obtain lean gas (regulation), so that currently BBWN is producing LPG (mixed) and condensate. Meanwhile, PT Pertamina Pusat has identified the potential and number of sources. Pertamina is very closed in terms of information regarding the number and distribution of available sources. At this time the lean gas flowing to BBWM must be returned to Pertamina. The reason being that the availability of sources is dwindling and only 60 gas wells are compressed in North Bekasi, while only 36 are running. The cooperation between BBWM and Pertamina is a cut-off sale and purchase of gas. This means that the gas produced by BBWM, such as LPG and condensate is gas that is still alkaline, so that when it is sold to buyers it still has to be reprocessed to render it immediately usable by the community. LPG produced by PT. BBWM is an LPG mix where 60 percent is propane and 40 percent is butane. Meanwhile, the current production condition for condensate is also decreasing from the current 20,000 litres to only 8,000 litres, because currently Pertamina also sells condensate. However, in terms of the quality of the condensate that BBWM has, it is better than Pertamina, although the amount is small. There are three BBWM refineries, which are named installation A, B and C. The condition of the “B” installation is so bad that it is no longer used for production. Installation A can still be operated, but only at certain hours. Meanwhile, installation C is in the best condition, where operations can be optimised for 24 hours continuously.

**SWOT Analysis**

The data obtained from the FGD explain that the results of the SWOT analysis clarify the five-year strategy to be carried out. Program fields to be implemented in the 2020-2024 period are: (1) revitalising office buildings, which includes: (a) increasing customer service including improving order, security and cleanliness; (b) business development; (c) empowering human resources; (d) increasing HR professionalism in managing company business, and (2) business development, which includes: (a) management cooperation; (b) diversification of the LPG and condensate business; (c) specific business development such as hotels, garbage and others, and; (d) asset management.

Furthermore, BBWM conducts work programs formulation; based on the fields/ aspects program above, a work program is compiled in each predetermined field. 1) Preparation of work activities; in order to achieve the work program, an activity plan is drawn up for each program in the five fields mentioned above. 2) Preparation of cost plans; in order to carry out activities, costs are required, while costs are compiled for each activity in each work program. 3) Preparation of business activity schedule; finally, a schedule for implementing activities to achieve the work program is drawn up. Thus, this SWOT analysis can describe the strengths and threats as well as the opportunities and weaknesses of the company as described below.
Strengths: the strengths of the company include the following: a) the company has professional directors and commissioners who can be empowered to support each other in improving company performance; b) the company has mostly skilled employees, managers and staff who have competency and skills in the natural gas sector; c) the company is the only BUMD Bekasi Regency in the field of LPG product development in Bekasi Regency; d) products produced by BBWM are products needed by the community; e) the LPG market potential is still quite large; f) the company has developed a variety of propane-butane products, and diversified supporting businesses such as hotels, waste management, assets and parking; g) the company contributes every year to regional revenue.

Weaknesses: Company weaknesses include: a) gas sources as the basic material for LPG are increasingly limited in Bekasi; b) there was a decline in world gas propane and butane market prices and oil prices so that company profits also decreased, which should have produced the biggest gain from revenue; c) the condition of the refineries, they are getting old and frequent damage occurs; d) the core business of each business has not been formulated, whether it will be the biggest LPG business, the best hotel management, the biggest waste management; e) the existence of a central government regulation does not support regionally owned enterprises in oil and gas producing areas and limits the movement of regionally owned enterprises businesses in the downstream oil and gas business; f) the lack of support from the Bekasi Regency Government in the development and financing for the progress of the company, and; g) there are as yet not compiled indicators per division based on key performance indicators.

Opportunities: the company includes at least several interests, namely: a) Pertamina EP as a state-owned enterprise has not explored oil and gas potentials; b) company participation in the management of oil and gas in the Offshore North West Java working area; c) the rapid industrial growth in Bekasi district and its surroundings means that the industrial need for LPG will continue to increase; d) hotel business units can be developed into competitive businesses; e) the asset management business unit can be developed into a profitable business; f) the waste management business unit can be developed and collaborated with the Jakarta Provincial Government, the Bekasi City Government or with other regional governments around the Bekasi Regency who receive typing fee funds from the central government.

Threats: the company includes at least several threats, namely a) the latest sources of LPG-based gas were not found in the Bekasi Regency area; b) BBWM does not get new gas allocation from the central government (Processed Gas Sale and Purchase Agreement); c) there is a Pertamina gas refinery owned by Pertamina Persero nearby in Bekasi Regency, which can shut down the regionally owned enterprises in the oil and gas sector business in Bekasi Regency; d) there are strong competitors in the Bekasi Regency who also supply gas (PT. PGN / National Gas Company) to various industries in the Bekasi Regency; e) there is no support for capital participation from the Bekasi Regency Government for business development / diversification.
Based on this analysis, the company is in a diversified position. Thus, the action that must be taken based on the results of the focus group discussion is that BBWM will develop the gas business, diversifying into propane and butane derivative products, and will develop the hotel business, waste management, assets management and parking.

**Figure 4.** Position of BBWM in diversification strategies

![Life Cycle Curve Analysis](image)

Source: Analysis result, 2020.

**Life Cycle Curve Analysis**

Based on the theory of the life cycle curve, it can be seen that there is a source saturation, where natural gas at the Tambun refinery has decreased drastically, which of course reduces the decrease in revenue and profit. The green dot illustrates that the gas product has experienced a mature condition, if other sources or exploration is not immediately looked for, or if it does not immediately diversify its business, there will be a decline in profits in the future.
Figure 5. Liquefied natural gas product life cycle curve
BBWM 2016-2020

Source: Processed by researchers, and the data for 2021 are predictive.
BBWM could not anticipate the downward movement in sales and company profits so that in 2019, the company could not rise quickly to the point of growth. The launching strategy is needed by the company as it is suspected that the company is continuously trying to develop the next gas products such as butane and propane. As is known, the location of the gas refinery owned by BBWM has only one refinery, which is located in a Tambun field in the Babelan district. The products produced by the company include lean gas, a gas that is considered dry and can be directly processed into LPG. The proposed company work plan is still focused on the existing company product with the intention that the company can reach a growth point, namely by the strategy of extending the cooperation contract with PT. Pertamina Nasional, especially in terms of licensing to share lean gas sources. Therefore, the company needs to rearrange its strategy. Researchers try to help companies by restructuring through focus group discussions. From this, the following policy strategy designs have been obtained.

Strategy 1: Optimising production. In the short term, the cooperation contract with PT. Pertamina Nasional will expire on November 23, 2020, so it is hoped that in 2021 BBWM can re-develop their business products from lean gas. Past evaluation resulted in future strategic plans proposed for company development, including: a) optimisation of production from available sources; b) procurement of lean gas sources by proposing cooperation with PT. Pertamina Nasional; c) 50 kg LPG bottling; d) gas stations, e) a mass filling station for LPG (SPBE), and; g) producing butane and propane.

Strategy 2: Business diversification. The BBWM policy was rearranged in early 2021, so that the company plans to develop other types of business, namely the hotel business, parking management business and waste processing business. BBWM's hotel development plan is an issue that arises because the supply of gas sources is decreasing over time. This has resulted in
a decrease in the company's income. Considering the need for the availability of lodging in the form of hotels is expected to be profitable in the future, which can be used as sources of company operational financing, while the hotel development plan is scheduled for 2022.

**Conclusion and Recommendation**

Based on the description above, the research conclusion can be drawn. The continuous decline in production levels, which caused the public company income level to decline from 2018-2020, means the company needs various strategies to return to the growth stage. Looking at future conditions and the impact of Covid-19, the company has set its business strategy on a diversification strategy. The recommendations given are to increase revenue, that other business developments be carried out, like the hotel business, business management and waste processing business. The hotel development plan, parking management and municipal solid waste management are the problems that arise from the focus group discussion because the supply of gas sources is decreasing from time to time.
Bibliography


Komninos, I (2002), *Product Life Cycle Management*, Urban and Regional Innovation Research Unit, Faculty of Engineering Aristotle University of Thessaloniki.


Poter, E Michael; (1980), *Competitive Strategy*, New York, the Free Press.


