OPTIMIZATION OF THE PERFORMANCE OF LOCAL COMPANIES (BUMD) IN MOVING THE ECONOMY of KABUPATEN PANGKEP

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Abstract

This study aims to: (1). Measuring financial capability of Pangkep Regency that sourced from local revenue to fund programs and activities, (2). Determining the strategic efforts in optimizing the performance of Government owned enterprises as a source of revenue. If the revenue contribution to total revenue increased significantly related areas every year, then the dominance of contributions from the fund balance of the central government will slowly decrease from year to year, which in turn can be self-sufficient in the area concerned fund all development needs.

Data is used in this research obtained by case study and focus group discussion. Focus group discussion are conducted in the BUMD management and consultant of technical and management assistance for discussing problems of corporate, and local financial management staff for gathering information about local revenues, contributing of revenues of government owned enterprise toward local revenues and policy of local government of Pangkep in improving BUMD performance.

The results of this study indicate that the contribution of PAD to total revenues during period 2006-2012 only 9.6% with the average of the percentage growth of 5.9%. PAD Pangkep is still very dominated by the acceptance of tax areas with average contributions of 52%. While the profit contribution of Government-Owned Enterprise haven’t been able to contribute significantly. It caused by; (1) the Government hasn’t been able to manage BUMD with professionally as productive enterprises and business center with the use of human resources professionals, so its performance is still relatively low, (2) business activities run by BUMD is still very limited and low benefits, (3) human resources which administers BUMD do not have the ability to develop productive efforts due to the limited capabilities of the network access attempt by outside ones; (4) the equity of BUMD only sourced from a APBD. In meanwhile, capital can be obtained from other sources, such as the investor as a partner of the business.

Keywords: Performance, Government Owned Enterprise, Local Revenues, Government Revenue and Expenditure Budget (APBD)
I. Background

In 1999 Indonesia began a new era of Local Government (LG) autonomy (Act 22/1999) in which the central government decentralized many aspects of its authority over LG. As a result, one aspect of the new local autonomy is fiscal decentralization granting LG rights to manage revenue, expenditure, and finance. However, one result of fiscal decentralization is that more than 30 percent of the central government budget is now being distributed to LG through a decentralization fund that has increased sharply in size, almost five times from $USD9.08 billion in 2001 to $USD43.66 billion in 2011 (assuming USD $1 = Rp9,000) (Ritonga et.al., 2012).

Since 2000, the Government of Indonesia has adopted a number of new policies and regulations on local government financial management aimed at promoting improved systems and greater accountability over public resources managed by local and regional governments.

The next stage of local autonomy in Indonesia is marked with two legal pillars of regional autonomy: (i) Law 32/2004 on Regional Governance, which focuses on administrative and political decentralization and includes the guiding references to the devolution of expenditure responsibilities; and (ii) Law 33/2004 on Fiscal Balance governing the distribution of resources across regions (LGSP-USAID, 2007).

The enactment of this act provides an opportunity for the local government to explore the local potential and improve its financial performance in order to realize the independence of the region or fiscal capacity. The essence of law No. 32/2004 with the division of powers and functions (power sharing) between the central government and regions. In the meantime, act No. 33 of 2004 set up the Division of financial resources (financial sharing) between regions that are designed by using the principle money follows function. This means that the delivery of the regional authority also coupled with the surrender of the sources of financing that had previously been the obligation of the Central Government (Mahi et. al., in Ladjin, 2008).

Regional autonomy not only provided the authority to manage the government but also on the financial capacity to fund the program and activities of government. Therefore, PAD is used as a barometer of the implementation of regional autonomy. The next problem is relate to the proportion of revenue derived from provincial revenue are still small, resulting in regional financial imbalances (fiscal gap) between capability areas (fiscal capacity) and the needs of the region (fiscal need). Therefore, the ability of PAD to finance any program and activities are also an indicator of fiscal capacity. In relation to the granting greater autonomy to the regions, PAD always regarded as one of the indicators or criteria to measure the dependence of an area to the center. In principle, the greater the revenue contribution to the budget it will show smaller dependence on the central region as a consequence of the implementation of the principle of local autonomy is real and responsible (Rinaldi, 2012).

The role of the central government and the provincial government became limited in providing direct services to the community, but a greater role in monitoring the course of the provision of various services performed by the Regency/city. Thus, the role of local governments increasingly vital in serving the community so that local governments should be
able to explore the potential of regional economic resources to improve the welfare of the community. Increased revenue contribution to regional revenue including each element (such as local taxes, retribution, profit enterprises or other legal PAD) will reduce regional dependence on the central government which also showed an increase in local fiscal capacity.

Table 1. Profile of Fiscal Capacity
Pangkep regency in 2008 - 2012

<table>
<thead>
<tr>
<th>Description</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Local Own Revenues (PAD)/Revenues</td>
<td>8,25%</td>
</tr>
<tr>
<td>Local Taxes/PAD</td>
<td>54,85%</td>
</tr>
<tr>
<td>Profit of BUMD/PAD</td>
<td>15,12%</td>
</tr>
<tr>
<td>Profit of BUMD/Pendapatan</td>
<td>1,25%</td>
</tr>
</tbody>
</table>


Since the implementation of regional autonomy in Indonesia, the area in general has not been able to show good performance when measured from the development of fiscal capacity. Contribution of balancing funds toward regional income still tend to dominate in the structure of local revenue. Pangkep regency as one of the autonomous regions also showed the same phenomenon with others.

As shown in table 1, revenue of Pangkep regency is still dominated by funds from the Central Government, which amounted to 90,88 percent while the PAD only 9,12 percent. This shows that financial capability of Pangkep regency during the period 2008 to 2012 is still low. Even so, the Central Government sees that the PAD is very strategic in optimizing the fiscal decentralization in particular as a source of development financing. But the issue is how local governments develop and streamline the PAD without having to overload the investors or local communities. Extensification or intensification programme as a basic strategy of local Government must be designed properly so as not to give rise to new problems because they feared it would cause a high cost economy.

It is feared that regional autonomy experienced a narrowing of the meaning of being freedom to collect taxes and retribution by the region, especially in areas of being scanty natural resources so that only a little get suitable funding for the result (profit sharing). Regional autonomy so far in fact not succeed to develop its potential but more deadly the existing potential. Regional government doesn’t think how to enhance resources (an example; agriculture), but trying to make various Perda about retribution, so that the competitiveness of local products of being inferior (saragih, 2003).

Among the sources of PAD available, BUMD have the strategic potential as mandated in the law of regional autonomy. Based on Law no. 5 of 1962 on BUMD, which reinforced by Law no. 5 of 1974 on the Principles of Governance (Financial Note and State Budget, 1997/1998). The goal is the establishment of enterprises to implement local development through community services, public benefit organization and increase local government
revenue. To realize this, then the local government especially Pangkep Regency Governments still need to take the right strategy in accordance with the objectives and environmental change. This is due to the small profit contribution of BUMD to local income just by 1 percent over the period 2008-2012, as shown in table 1.

Research is intended to explain financial capability of pangkep regency, role of BUMD in supporting local financial pangkep regency, suitable strategy in supporting role BUMD as development financing sources in pangkep as well as the whatever needs to be considered to design the fit strategy for BUMD in contributing to increasing PAD.

II. Theoritical Framework

2.1 Local Autonomy

Local autonomy is defined by two specific powers: initiation and immunity. Autonomy also defines the extent of local discretion in terms of local government functions, actions, and legitimate behavior. For example, if local initiative were tightly circumscribed and the conditions in which local powers are exercised were similarly prescribed, then local discretion would be severely limited. If it were also the case that immunity was limited, then local discretion would be doubly constrained. Autonomy in such a world would hardly exist, if at all. In this context, discretion and autonomy are closely related (Dworkin, 1972). Local governments have the discretion to act, depending upon the prior definition of local government initiation powers. Similarly, discretion is limited by the review functions of higher tiers of the state. Discretion, or the ability of local governments to carry out in their own manner their own particular objectives in accordance with their own standards of implementation, depends on the prior specification of local autonomy (Clark, 1984).

Regional autonomy in Indonesia brings two important changes to Government. The first major change in the new laws is the change in the regional hierarchy. Regency (kabupaten) and cities (kota) hold equivalent autonomous status. Unlike in the previous system where they are hierarchically organized under the province (propinsi), Regency and cities are an independent focus of regional governments with direct communication to central agencies in Jakarta. The second change is the acquisition of quite a wide range of autonomous functions awarded to the regional governments at the regency and city level, but not with provinces. The functions and responsibilities awarded include public work, health, education and culture, agriculture, communication, industry and trade, capital investment, environment, land, cooperatives, and manpower affairs and the management of national resources. Authority given to local governments should be encouraged to further optimize every effort in creating new sources of revenue without burdening the public or private groups that are part of the development stakeholders. Local creativity by itself also will increase the local fiscal capacity.

Increase in fiscal capacity does not need to give a dichotomy between PAD with balancing funds. But also need to understand that the increase in fiscal capacity does not mean a big budget number. Huge budget but not managed properly (does not meet the principle of
value for money) it will cause problems, for example with a budget leaks. Most important is the optimization of the budget because of the role of local government will be as a facilitator and motivator in encouraging development in the area (Osborne and Gaebler, 1993).

2.2 Fiscal Capacity

Fiscal capacity refers, in general, to the relative ability of subnational unit of government (or a set such units) to generate funds from its own revenue sources (Barro, 2002). Fiscal capacity can also be explained by a number of taxes that should be able to be collected from the tax base (tax base), which is usually the income per capita (Suparmoko, 1992). However, the tax is just one indicator that can be used to measure fiscal capacity. Related to that, the Minister of Finance Regulation No. 73/PMK.02/2006 explained that the fiscal capacity is a picture that is reflected of local financial capacity through the local own revenues (excluding special allocation fund, emergency fund and other revenues restricted to finance for specific expenditure) reduced by as well as personnel expenditure associated with the number of poor people.

Efforts to improve the capacity of local fiscal (fiscal capacity) is not only about increasing revenue. The Increasing of fiscal capacity is basically optimizing local revenue sources. But not necessarily made a dichotomy between PAD with balancing funds. But also need to understand that the increase in fiscal capacity does not mean a big budget in quantity. A big budget but not managed properly (does not meet the principle of value for money) it will cause problems, for example with a budget leaks. Most important is the optimization of the budget because of the role of local government will be as a facilitator and motivator in encouraging development in the area (Osborne and Gaebler, 1993).

The main characteristics of an area capable of performing autonomy fiscal decentralization are; (1). Ability of regional financial, which means the area having ability and authority to dig sources of finance, managing and using its own financial to finance administering government; (2). Dependence to central aid must least possible harm, hence, PAD must be the largest financial supported by financial balance policy of central and local government (Halim 2001).

2.3 Optimizing the role of BUMD in local Funding through strategic approach

The low contribution of local own revenue especially that come with regional taxes, retribution to finance program and development be the strategic reason for the government to optimize other sources income. The ability of governments in optimize any effort traveled will determined by level of control owned. Hence, BUMD being alternative proper be source of local revenue (Akhyadi, 2008). BUMD as one institution government business established with took on a dual mission which as a means regional government in running program and particular activity and contributed in a PAD (Mursalim, 2012).

To improve BUMD contribution against the development in a region especially as one source of PAD, then needs to be done to restore order which is able to improve BUMD performance. Hence, approach the strategic management can give the power to BUMD with an
action of consistent and integrated. A process of strategic management and decision making will help to ensure the development of the company in accordance with the purpose and mission responsibilities. Without guided by management strategic in the development of local companies and development of business units company often tending toward different directions (Hitt et.al., 2009). Through strategic management approach can also encourage decision makers of company to be more active and realized economy resource potential and anticipation of environmental changes in improving the performance of the company (Barons, 2003).

Strategic approach in the management and business focus on fitting between the business environment, strategy and the performance or commonly known with the ESP paradigm which has believed to the truth through further researches empirical (lucas et al., 2001). Hence, the development of performance BUMD as an initial step in increasing contribution to PAD to be done by analyzing a proper external environment (Pearce and Robinson, 2007; Porter, 1996 ) and internal environment (Penrose, 1959)

III. Method

Data is used in this research obtained from local financial and assets management of pangkep, 3 director of BUMD, consultant of technical and management assistance, report on the realization of APBD 2006-2012, personal communication or email, and document analysis.

The research method used are case study and focus group discussion. Focus group discussion are conducted in the BUMD management and consultant of technical and management assistance for discussing problems of corporate, and local financial management staff for gathering information about local revenues, contributing of revenues of government owned enterprise toward local revenues and policy of local government of Pangkep in improving BUMD performance.

Meanwhile, the level of local fiscal capacity is measured by the degree of fiscal autonomy (DOF) is obtained from the ratio between the total revenue divided by total revenue budget (Halim, 2001; Kuncoro, 2005).

IV. Results and Discussion

4.1 Profile of Pangkep Regency fiscal capacity

Fiscal decentralization is the central government policy that has some principle and purpose, namely; (1). Reducing fiscal gap between central government and regional government (vertical fiscal imbalance) and inter-regional (horizontal fiscal imbalance), (2). Improve the quality of public services and reduce the gap public service inter-regional; (3). Increase efficiency utilization of resources national, financial management and governance, transparent, and accountable in the event of the transfer to the region with proper target, on time, efficient, and fair; and (4). Support continuity of fiscal policy in macro economy.
In order to perform the functions and authorities are expressed in the form of the fiscal needs, each region has the financial capacity and fed. In General, the regional fiscal capacity is the ability of local governments to raise revenue is based on the potential sources (Simanjuntak, 2003).

Based on analysis done about structure of local revenue and regional spending as on table 2 shows that PAD pangkep regency obtained in the period 2006-2012 tended to increase especially on 4 first year of period of 2006-2009 with average growth is 18 percent. Among sources PAD, local tax contributes largest which average level of 52 percent, then retribution is about of 20 percent, others PAD is about 16 percent and the results of local wealth management a demarcated of 12 percent.

Table 2. Local Own Revenues and expenditure
Pangkep regency of 2006 - 2012

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Own Revenues (PAD)</td>
<td>36.477,70</td>
<td>41.620</td>
<td>44.152</td>
<td>59.176</td>
<td>52.039</td>
<td>60.930</td>
<td>71.076</td>
</tr>
<tr>
<td>• Local Retribution</td>
<td>6.483,45</td>
<td>4.332</td>
<td>4.826</td>
<td>19.117</td>
<td>10.453</td>
<td>11.920</td>
<td>17.338</td>
</tr>
<tr>
<td>• the results of local wealth management a demarcated</td>
<td>3.997,09</td>
<td>5.111</td>
<td>6.696</td>
<td>6.870</td>
<td>6.310</td>
<td>7.570</td>
<td>7.030</td>
</tr>
<tr>
<td>Local Spending</td>
<td>307.025,95</td>
<td>379.026</td>
<td>3.615</td>
<td>588.554</td>
<td>602.794</td>
<td>635.670</td>
<td>754.176</td>
</tr>
</tbody>
</table>


The high tax contribution showed that the local Government has not yet fully have a high creativity in finding and optimizing sources of potential PAD. This reality reaffirms the position of the tax as a main source of local own revenues. Besides as budgetair tax can also serve as a regulerend. In terms of function a budgeter, the tax is to raise funds that will be used to finance on government spending.

As regulator function (regulerend), the tax is used as a tool to achieve certain objectives that is located outside the field of finance and organize many addressed to the private sector (Brotodihardjo, 1993). In conjunction with the system, Jhingan (1994) explains that in an effort to boost tax revenue in line with the progress of economic activity required a system of taxation that can be a major supporter of the economy.
Table 3. Pangkep regency of fiscal capacity 2006 - 2012

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of local taxes (PD)</td>
<td>9%</td>
<td>13%</td>
<td>8%</td>
<td>11%</td>
<td>13%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Ratio of PD/PAD</td>
<td>53%</td>
<td>51%</td>
<td>55%</td>
<td>44%</td>
<td>56%</td>
<td>54%</td>
<td>51%</td>
<td>52%</td>
</tr>
<tr>
<td>Growth of local retribution (RD)</td>
<td>-33%</td>
<td>11%</td>
<td>296%</td>
<td>-45%</td>
<td>14%</td>
<td>45%</td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td>Ratio of RD/PAD</td>
<td>18%</td>
<td>10%</td>
<td>11%</td>
<td>32%</td>
<td>20%</td>
<td>20%</td>
<td>24%</td>
<td>20%</td>
</tr>
<tr>
<td>Growth of the results of local wealth management at demarcated (HPKDP)</td>
<td>28%</td>
<td>31%</td>
<td>3%</td>
<td>-8%</td>
<td>20%</td>
<td>-7%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Ratio of HPKDP/PAD</td>
<td>11%</td>
<td>12%</td>
<td>15%</td>
<td>12%</td>
<td>12%</td>
<td>10%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Growth of Others PAD (LPAD)</td>
<td>67%</td>
<td>-22%</td>
<td>-17%</td>
<td>-12%</td>
<td>39%</td>
<td>19%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Ratio of LPAD/PAD</td>
<td>18%</td>
<td>26%</td>
<td>19%</td>
<td>12%</td>
<td>12%</td>
<td>14%</td>
<td>14%</td>
<td>16%</td>
</tr>
<tr>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: The data processed, 2013

The creativity of the local Governments especially in Pangkep Regency of Government in managing PAD is still limited to the intensification and extensification PAD especially local tax and retribution. It caused by concern the Government in applying the tax rates and retribution that could have an impact on the high cost economy. But the effort to make the government own entreprise as the source of the PAD still face barriers that impact the low contribution to the PAD.

As on a table 3, seemed that the results of wealth a demarcated area where profit BUMD become part of the post was still low contribute compared to other sources PAD with average only 12 percent.

4.2 Optimizing of BUMD performance

A challenge to improve extension intensification and potentially give rise to high cost economy and still low BUMD profit contribution to PAD become background to contrive strategic steps to push the performance of BUMD as a source of revenue. From the analysis conducted that some of the issues faced by BUMD pangkep regency that affect the performance of the organization are; (1). The high ratio of operation, (2). The high debts ratio, (3). Production capacity and distribution is still low and (4). The high ratio of civil servants. Several factors that affect the performance of BUMD with reference to the paradigm ESP are; (1).The involvement of government, (2).The quality of resources, (3). Efficiency, and (4); the non market capabilities of management.

4.2.1 The involvement of government

Government involvement is the actions of a government supported by regulations or provisions of legislation that affect the decisions of the management. Some form of local government involvement is; (1). Engagement in setting rates (for PDAM), (2). Involvement in decision-making regarding investments that will be done by BUMD, (3). Government
involvement through financial assistance to BUMD, (4). Local government capital participation to BUMD, and (5). The involvement of local government activities in assistance of engineering and management.

4.2.2 Quality of resources

BUMD resources consists of physical resources, human resources, financial resources and managerial capabilities. To improve the quality of organization resources and performance necessary to be done emphasis on; (1). The availability of human resources who has a background of education in accordance with of organizations needs (2). The availability of experienced human resources (3). The availability of physical resources (e.g. pipe, physical a pumping engine for PDAM) in accordance with the needs of companies, (4). The availability of the course of development of human resources (e.g. training), (5). The availability of financial resources in favor the development of investment company, and (6). The availability of resources managerial able to resolve any complaints from the customers

4.2.3 Efficiency

Some of the problems faced by BUMD is currently operating expenses and debt ratios is high, excess human resources as indicated by the high ratio of employees per customer. Therefore it takes a strategic step that can be instrumental in developing the company's performance. From the results of the discussions conducted with some of the company's stakeholders, the BUMD needs to take a few steps on the efficiency-oriented namely: (1). Control for cost/general and administrative expenses, (2). Reduce level of leakage of supply and distribution, (3). Improve the efficiency of labor costs (employees), (4). Optimization of production and distribution, (5). The utilization of raw materials or chemical substances optimally.

4.2.4 Non-market capabilities

Non-market capabilities is the ability possessed by management of the company in the conduct or to communicate with the governments of both the Executive and the legislative. Benefits for the company from the results of the effective communication of which the opportunity to access resources that a government authority or a chance to potentially reduce the risk experienced by the company.

Non-market capabilities will be retrieved if; (1) Management has the ability in lobbying the Executive and legislative in proposing plans for strategic decisions (e.g. tariff adjustment), (2). Companies benefit from participation in the affiliate membership in conjunction with the executive and legislative, (3). The company fund certain activities outside the company's activity to reduce the risk to public and political pressure, (4). The company involves professional institutions (for example the BPKP/college/technical consultant) to clarify certain issues related to the management of the company.

Based on the description above, it can be stated that the BUMD performance will be enhanced and ultimately contribute to the PAD when government involvement to organizations
that supported by the high quality of the organization's resources, the ability to communicate with the executive and the legislative as well as the operation of the company is oriented on achieving a high level of efficiency.

V. Conclusions, Suggestion and Limitation

5.1 Conclusion

Low BUMD performance is one factor that affect ineffective of profit BUMD contribution to PAD pangkep regency. Hence, government involvement that supported by non market capabilities needs to be enhanced including resources to improve the organization. In addition, any activity performed by BUMD everlastinglly achievement should be directed at high levels of efficiency.

5.2 Suggestions

1. It is important for regional and city governments to encourage the development of BUMD through policies and programs synergized with other stakeholdres, such as central government, and provincial government.

2. It is important for BUMD to pay special attention on the implementation of human asset/resource management practices and asset/resource management, especially physical asset/resource management.

3. It is necessary for BUMD to optimize activities oriented toward the creation of efficiency in company operational activities, such as in leakage management and human resource productivity.

5.3 Research limitations

Research qualitatif design used in this research is one of the limitations. In addition, the selection of case study method in exposing problems and solutions that are considered appropriate in developing the performance of BUMD also need to be considered in making a generalization.

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