

Factors Affecting Local Government Business Organization Change in Indonesia: Case Study in West Java

Sam'un Jaja Raharja*
University of Padjadjaran

Iriana Srikandiati
Regional Training and Education Agency West Java Province

— Review of —
**Integrative
Business &
Economics**
— Research —

ABSTRACT

The government of Indonesia has declared change of management in their local business organization. Meanwhile, theorists claim that change processes in business organizations are difficult to achieve, and many of them tend to fail. Many factors influence the success of the process. This research aims to identify the factors affecting business organization change in the local government of Indonesia. The current research used qualitative methods and the case study approach. Results show that the change process in local government business organizations in Indonesia is unique and complex. Such complexity is brought about by two aspects: (a) previous managerial problems; and (b) the emergence of new regulations. Changing a local government business organization in Indonesia not only requires the consideration of various factors that are suggested by the theoretical framework but also economic, social, and legal factors. These factors are simultaneously interconnected throughout the change process. Results also reveal that the change in local government business organizations in Indonesia is unique and cannot be applied through theoretical perspective alone.

Keywords: change, local business, organization

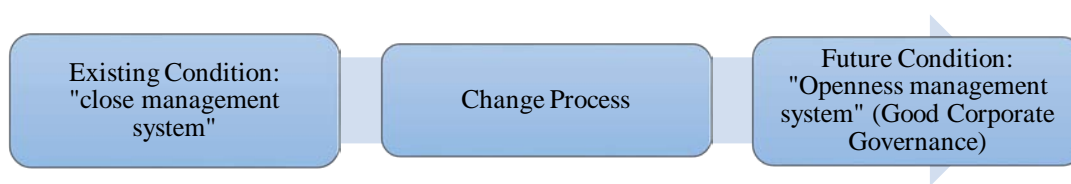
1. INTRODUCTION

The new regulation of the Indonesian government, Indonesia Act No. 23/2014 concerning Local Government, deactivates Indonesia Act No. 5/1962 concerning Local Government Company, and activates the local government company into general local company and local limited government company. The differences of the three types are:

- A local government company (*Perusahaan Daerah or PD*) is a company in which all capital or half of the capital is funded by the local government.
- A general local government company (*Perusahaan Umum Daerah or Perumda*) is a company in which all capital is funded by the local government.
- A local government limited company (*Perusahaan Perseroan Daerah or Perseroda*) is a company in which all capital is divided by shares and the local government owns all the capital or at least more than 51% of the share.

The consequence of the new regulation is massive, extensive, and in-depth. After seven decades, the old and closed management system is changed by the new and open management system, or what is now called a “Good Corporate Governance” system. The flow of change is shown in Figure 1.

Figure 1 Steps of Local Government Business Change Process



Considering the large scope of change, the change process is characterized by a major threat. To make the change process successful, the factors influencing the change process need to be identified. This research aims to identify all of these factors.

2. THEORETICAL FRAMEWORK

Assessing the effectiveness of the change process of Local Government Company X will apply the generic process model by Hayes (2010). This model has seven change processes: (1) recognize the need and start the change process, (2) diagnosis, (3) manage people issues, (4) plan and prepare to change, (5) implement the change process, (6) review, and (7) sustain the change process. Every process has specific steps as well as some factors influencing every step. The steps are listed in Table 1.

Table 1 Interconnections of the Generic Process of Change Management to Factors and Principles of Successful Organizational Change in the Government System

Generic Process Model of Change Management	Steps of Generic Model	Interconnections		Category
		Fernandez & Rainey Factors ²	Ostroff Principles ³	
Recognize the need and start the change process	Recognizing the need for change	a)	a), e)	Weak
	Starting the change process	a)	a), e)	Weak
Diagnosis	Gathering and interpreting information to diagnosis	a)	a), d)	Weak
	Diagnosis: reviewing the present state and identifying the future state	a)	a), d)	Weak
Managing people issues	Managing stakeholders	c), d), e)	b)	Strong
	Leadership	a), c), d), e)	e)	Strong
	Communicating change	a), c), d), e)	b), e)	Strong
	Motivating others to change	a), c), d), e)	b), e)	Strong
	Managing personal transition	a), c)	b), d), e)	Strong
	Modes of intervening	c)	b), d), e)	Strong
Plan and prepare to change	Shaping implementation strategies	b)	c), d)	Weak
	Developing a change plan	b), f)	c)	Weak
	Type of interventions	b)	c)	Weak

	Selecting interventions	a)	c)	Weak
Implement the change ¹	Intervention that focus on human process problems	-	-	-
	Interventions that address human resources issues	-	-	-
	Interventions technostructure	-	-	-
	Intervention strategic issues	-	-	-
Reviewing	Reviewing the change	a),b)	d)	Weak
Sustain the Change ¹	Making change stick	-	-	-
	Spreading change	-	-	-

Source: Results of Analysis

Notes:

1. (-) The process of implementing the change and sustaining the change process is excluded in the scope of analysis, because it is not implemented yet.
2. The successful factors by Fernandez & Rainey (2006) are as follows:
 - a. Ensure the need;
 - b. Provide a plan;
 - c. Build internal support for change and overcome resistance;
 - d. Ensure top management support and commitment;
 - e. Build external support;
 - f. Provide resources;
 - g. Institutionalize change; and,
 - h. Pursue comprehensive change.
3. The principle of successful organizational change in public sector by Ostroff (2006) are as follows:
 - a. Improve performance against agency mission;
 - b. Win over stakeholders;
 - c. Create a road map;
 - d. Take a comprehensive approach; and,
 - e. Be a leader, not bureaucrat.

To sharpen the generic process model by Hayes, we consider two studies, which are related to the organizational change in the public or government sector. The first study is by Fernandez and Rainey (2006) on the factors affecting the successful management of organizations in the public sector, while the second one is the study by Ostroff (2006) on the principles of managing change in the government.

Fernandez and Rainey (2006) argued that the factors of successful management of organizations in the public sector ensure the need, provide a plan, build internal support for change and overcome resistance, ensure top management support and commitment, build external support, provide resources, institutionalize change, and pursue comprehensive change.

Ostroff (2006) stated the five principles of successful organizational change in the public sector, which include (1) improved performance against agency mission, (2) win over stakeholders, (3) create a roadmap, (4) take a comprehensive approach, and (5) be a leader, not a bureaucrat.

By considering the two studies, the research has identified that, theoretically, the process of managing people issues in the generic process of Hayes strongly contributes to a successful business change process at the local government level (Appendix A). The aspects that influence the management of people issues include managing stakeholders, leadership, communicating change, motivating others to change, managing personal transitions, and modes of intervening.

3. METHODS

This research used the qualitative method and the case study approach. The location of the study is in the Local Government Company in Province Y of Indonesia, which has a primary business in the property sector. Purposive sampling using snowballing technique was chosen to gather information. The information was gathered through an in-depth interview.

4. RESULTS AND DISCUSSION

Research finding gathered through an in-depth interview with the stakeholders has explained some interesting phenomena.

In 2010, Province Y implemented Local Government Regulation No. 19/2010. This regulation announced the willingness of the government of Province Y to change the legal form of the Local Government Company into a limited company. Thus, this local government regulation is suitable to the Indonesian government policy, that is, Indonesia Act No. 23/2014 concerning Local Government System. Local Government Regulation No. 19/2010 was followed by another local government regulation, namely, Governor Regulation No. 4/2012, which stated the procedures and mechanism of the change process. Furthermore, Governor Regulation 4/2012 also regulated that due diligence process should be finished in six months and should take effect on July 2012. Results show that at present, the due diligence process is not finished yet. In other words, the organizational change in the Local Government Company X is delayed.

The delay in the change process of Local Government Company X is relatively interconnected to the two main problems. First, a managerial problem arises from the former management as well as the former regulation. Second, a legal problem arises and is related to the new regulation. Two problems are explained below.

a. The managerial problem is connected to:

- (1) Imperfect economics and the financial assumption of the agreement contracts (for instance, exchange rate and inflation rate). When the macroeconomics of Indonesia improve, exchange rate tightens, and the inflation rate is controlling; then the assumption fails, and the investors who have an agreement with Local Government Company have the advantage, gain a huge profit, and pay the small portion of the dividend.
- (2) Limited business ethics of businessmen that have an agreement with Local Government Company X. After the failure in Building, Operation, and Transfer (BOT) contracts, the government of Province Y attempts to initiate a joint operation agreement. The contract is imperfect because of the lack of experience in the joint operation agreement (or the inefficiency of some preparations). The agreement cannot control the moral hazard of the businessman. For instance, Local Government Company X engages in a long-term agreement, which spans for 30 years for BOT contracts. After the contract runs for a while, the businessman suddenly explains that they do not have sufficient money to finish the agreement, thereby making the property (land and building) useless. In other days, the government of Province Y has information that the businessman is moving their capital to another project in another location. Then, the government of Province Y takes a legal action against the businessman. The legal action continues to date.
- (3) Incompatibility of the grand strategy of the business process and the strategy of human resources. Local Government Company X tends to develop many BOT contracts (8 up to 10 agreements) in their agreement. In the BOT contract, Local Government Company X does not need many employees in its daily operation of the business process. PD X should choose a strategy that would lessen the number of employees. However, such strategy is not chosen by Local Government Company X because of some political

consideration. At present, Local Government Company X faces a surplus of employees, significantly straining their financial condition.

All of these managerial problems occur simultaneously and accumulate in the form of small and limited profit.

- b. The regulation problem is connected to property issues as a basic business of Local Government Company X. The actualization of Indonesian Act No. 23/2014 concerning Local Governmental System as well as the Governmental Regulation of Indonesia No. 27/2014 concerning Local and National Property Management, prescribe the following:
- Prohibit the transfer of assets owned by the local government to another party;
 - Register the gain in the form of property as a local government capital;
 - The local government property must act as a local government capital or local government inventory.

From these three perspectives, the two last points are highly connected to change in the management process of Local Government Company X. The BOT agreements result in high-valued properties. All of these properties should not only register but also pay the property taxes. Moreover, the amount of tax is big, and cannot be fulfilled by the financial condition of Local Government Company X.

The business organizational change of Local Government Company X and the rise of several problems and threats have induced the unwillingness of the management PD. X (or the change of the leader of Local Government Company X) to finish the change process. This phenomenon is shown in the interview (Table 2) The interview process has shown that the management PD. X paid little attention in managing people issues. From a theoretical perspective, managing people issues is a significant process throughout the change process.

Table 2 Assessment of Managing People Issues
by Management Local Government Company X

Factors	Assessment
Managing stakeholders	The management of Local Government Company X tends to adopt “a loss frame” strategy and only interacts with few stakeholders who control “a strategic” resources. The implication is that unidentifying the situation on the grassroots level and cannot create an appropriate road map that is needed for the change process.
Leadership	The director of Local Government Company X acts as a change leader but does not maximize his role. The actualization of the transformation leader creates value and vision and does not reflect in the entire change process.
Communication of change	Communication as a train for change process has not been implemented. The director of Local Government Company X passively communicates about business organizational change.
Motivating other to change	The management of Local Government Company X is limited to motivating the employee. It is connected to the mindset of the management, which implies that the employees (and other stakeholders) are in the resistance position.
Managing personal transition	Considering that the management of Local Government Company X take “a loss frame” strategy and place the employees in the resistance position, the management of Local Government Company X does not develop an appropriate way to manage personal transitions.

Modes of intervening	The management of Local Government Company X passively develops the modes and tools for intervention. The management of Local Government Company X only provides some recommendation, but the recommendation is yet to be implemented.
----------------------	--

Source: *In-depth interview*

The problems that involve in Local Government Company X caused the change of management in the Local Government Company X that resulted to the delay implementation of the change process. However, the owner of Local Government Company X, that is, Governor of Province Y, has to create a comprehensive strategy, which is in line with the business strategy. This strategy needs a strong legal basis to provide power to people who will implement the strategy. Before the start of the change process, due diligence process, which covers the situation and condition of the entire business process, has to be done accurately. The change process entails significant resources, such as financial resources, human resources, and appropriate time. The business change process is a new process for a business local government organization. Thus, a transformation leader needs to be identified, which not only has an appropriate experience in the change process but also has good commitment.

5. CONCLUSIONS

Some principles and factors influence the success of the change of local government business organizations in Indonesia, especially in the form from Local Government Company and Local Limited Company in which the property is the primary business. The important principles are as follows:

1. Ensure the implementation of “due diligence business process”;
2. Create a comprehensive strategy, which is a business strategy in line with the change process strategy;
3. Ensure the competency and commitment of the change leader; and
4. Provide organizational resources, especially financial and human resources.

To implement those principles, the factors that should be considered are as follows:

1. Technical factors, which will be used to implement due diligence business process and to create a comprehensive strategy;
2. Human factors, which will help in choosing the transformation leader and the team who will lead the change process; and
3. Legal factors, which is a legal framework needed to make the change process effective.

REFERENCES

- [1] Fernandez, Sergio Dan Rainey, Hal G. 2006. "Managing Successful Organizational Change in Public Sector." *Public Administration Review*, March/April.
- [2] Hayes, John. 2010. *The Theory and Practice of Change Management*. Third Edition. NY: Palgrave Macmillan.
- [3] Komite Nasional Kebijakan Governance. 2006. *Pedoman Umum Good Corporate Governance Indonesia*
- [4] Ostroff, Frank. 2006. "Change Management in Government." *Harvard Business Review*. Mei. p. 1-12.
- [5] Peraturan Pemerintah No. 27 Tahun 2014 tentang *Pengelolaan Barang Milik Negara/Daerah*
- [6] Undang-Undang Nomor 5 Tahun 1962 tentang *Perusahaan Daerah*
- [7] Undang-Undang Nomor 40 Tahun 2007 tentang *Perseroan Terbatas*
- [8] Undang-Undang Nomor 23 Tahun 2014 tentang *Pemerintahan Daerah*