STRATEGIES OF BUMN SECTOR MANAGEMENT:
Management Evaluation and Supervision

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Secara garis besar, pengelolaan Badan Usaha Milik Negara dapat
dihadapi menjadi dua yaitu pengelolaan sektornya, dan pengelolaan
individu perusahaan. Tsuan ini membahas yang pertama, pada tingkat
pengelolaan sektor yang dilaksanakan oleh departemen keuangan sebagai
pemilik mewakili pemerintah sejauh departemen terkini. Pengelolaan
sektornya terutama terkait pada pengawasan dan pengendalian manajemen
badan asalnya berdasarkan struktur teritorial. Hal ini terutama dihubungkan
dengan tata-kurikulum BUMN (penetapan, likuiditas, dan solvabilitas), kemudian
dihubungkan dengan miti dan tujuannya berupa tujuan komersial dan non
komersial, serta pengelompokkan mereka berdasarkan berbagai kriteria.
Analitis yang ditimbulkan terutama berhubungan dengan keberhasilan
organisasi dan manajemen dikaitkan dengan karakteristik dan dimensi
BUMN kita yang sangat bervariasi. Di sini dikemukakan analitisis sajaran
kelompok terhadap prioritas tujuan dan persepsi manajemen dalam
hubungan dengan kriteria alternatif kebijakan pengelolaan sektor, serta
strategi perencanaan.

Management of BUMN sector at the
top level by the Department of Finance
along with other related departments are
conducted indirectly, through performance
evaluation on management control system
by establishing criteria. This is formalised
based on the objective to be reached. This
paper will attempt to assess existing mana-
gement and evaluation systems, which are
then improved and perfected so that it may
courage directors/managers to reach
their collective goals effectively and effi-
ciently.

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BUMN Management
Supervision System

BUMN management control system is
regulated under Govt. Reg. 3/1983. This
regulation is an amalgamation of previous
regulations, which have different back-
grounds. It is a continuation of Govt. Reg.
No. 55/1990 regarding management super-
vision for BUMN who are about to go
public, and Finance Minister's Edict 740/
1989 and 826/1992 concerning performan-
ce evaluation criteria. The system is con-
cerned with and related to BUMN objectives, structure, and supervision system.

**BUMN Objectives**

BUMN's main objective is to increase the people's welfare. To achieve that, a set of goals has been formulated to contribute to the economic development of the country, to increase revenue, to provide basic goods such as commodities and services which are top-quality and necessary for the livelihood of the people; to be an innovator in activities not covered by the private sector or cooperatives; to be active in the development of the private sector, especially the small-scale enterprises and cooperatives; and to be active in implementing government economic and development policies. BUMN objectives are far ranging and macro in characteristic. On the whole, the objectives as a company is to achieve profit, growth, and sustained effort. Its objectives as an apparatus of government policy is to maintain stability, facilitate efficient allocation of resources, increase and conserve revenue, decrease unemployment by providing jobs, enable small-scale industries to do business, provide guidance to small-scale industries, and to develop the region. All the objectives above will be evaluated to determine the highest priority so that limited resources can be used optimally to achieve its objectives.

**BUMN Management Control Structure**

Govt. Reg. 3/1983 appointed the Finance Minister to be the government's representative as owners, who will then delegate his authority to other ministers in charge. Supervision on BUMN will also be conducted by the Director General in charge of operations and director general in charge of administration. Inspection will be conducted by the inspector general. The Minister of Finance will be assisted by the director general in the management and supervision. Fourteen ministers in their respective fields and BPJS will assist the Finance Minister in actual management. The minister will be in charge of BUMN which are relevant to his duties. The organization structure of BUMN sector based on ministerial duty is shown in the form of a divisional structure in Figure 1.

Supervision by relevant ministers in practice will be affected by each minister's decisions, which are oriented to their role in the economic development. In fact, BUMN is a compound portfolio of various fields which are interrelated. Consequently, conflicting policies will obstruct the formulation of general policy and decision of compound investment portfolio revenues.

Supervision by the ministers are conducted through shareholder meetings, where it holds the mandate of shareholders; in this case, the Government. The minister's mandate is limited to ratifying budgets and approving which have been audited by KPPU (State Finance Auditing Agency). Decision making on investment, capital issues, contract charges, revenue sharing, debt abolishment, salary calculation, and budgetary modifications must be done by permission of the Finance Minister as the major shareholder.

All BUMN issues are the rights of the country, while the Finance Minister acts as a major shareholder in shareholder meetings. This is true in all cases where some or all company assets are owned by the government. The shareholder meeting is the highest authority in decision making on investment, revenue sharing, promotion of directors, and so on. Since BUMN involves other relevant ministers and departments, management economy has not
Figure 1. Formal Structure of BUMN Sector

The Minister of Finance as Representative of the Owner

Directorate General Supervising BUMN

Minister

Minister

Minister

Minister

Minister

Minister

Minister

Minister

BPIS

Note: GI = General Inspector
GS = General Secretary
DG = Director General
□ = BUMN
been fully realized. This type of organization may cause misconception of what steps need to be taken to achieve the objective. According to Government Regulation 3/1983, Finance Minister and relevant ministers hold key positions in decision making. In reality, BUMN has a complex relationship with the government since both are serving their own interests, which may conflict with each other. Managerial success is very dependent on how to maintain good cooperation with various government institutions.

**BUMN Management Control Process**

Management control system consists of setting objectives, implementation, performance evaluation, and revision of regulations in order to keep the organization along its strategic track. The objectives will be general. In order to achieve it, each BUMN is required to prepare a work plan along with a budget, which must comply with the guidelines and policies established by the ministers, and with its long-term Corporate Plans. The work plan and budget will be compiled and approved by the ministers in charge, to be reported in the shareholders' meeting for Persero or Peraam RKAP (Corporate Work and Budget Plan) which have been approved and will serve as a guideline and shows the scope of supervision by the board of chairman for Persero and the board of supervisors for Persero that are about to go public will be supervised directly by the finance minister in
Figure 3. Perum and Perseo Management Supervision

Supervision

- Technical Ministry
- Approval of Objectives and Financial & Evaluation Report

Latter Holders' Meeting

The 1945 Constitution Article 33
Law Number 9/1959 Finance Minister's Edit 749/1959
Broad Outline of State Direction and the Five-Year Development Plan (GDRH/1959)

Guidance

Policy Guidance

Objective

Performance

Implementation

Board of Directors for Perum and Perseo

Performance Evaluation

(Forward)

Figure 4. Management Supervision of Perum That Have Gone Public

Supervision

Minister of Finance as Shareholder

Shareholders' Meeting

The 1945 Constitution Article 33
Law Number 9/1959 Finance Minister's Edit 749/1959
Broad Outline of State Direction and the Five-Year Development Plan (GDRH/1959)

Guidance

Policy Guidance

Objective

Performance Evaluation

Implementation

Board of Supervision

Objective Approval

Feed Back
his capacity as shareholder on behalf of the government. Approval of RKAP will be executed by the board of directors as supervisors representing shareholders. Supervision of BUMN is outlined in Figure 3.

GOC Reg. 3/1983 did not contain evaluation criteria. Accordingly, performance evaluation are only done by comparing RKAP with actual performance. RKAP functions as a budget can also be used as a measurement of success. Scores for performance and success rate were not available. Hence, two categories were used i.e. successful and unsuccessful.

The government has tried to increase efficiency and productivity to turn BUMN into an independent and efficient entity that is able to face increasingly tough competition amidst global economy. Finance Minister’s Edict 740/1989 has set the criteria profitability, liquidity and solvability as the financial criteria to measure fulfillment of commercial objective. Profitability measures the ability to gain profit in a certain year. Liquidity and solvability measures a company’s ability to fulfill short- and long-term obligation to creditors which are crucial to maintain financial stability. The three criteria above only measure a part of commercial objective fulfillment, profit and sustainability. Growth is not merely a long term trend but also average rates for three years regardless of its trend.

Finance Minister’s Edict 740/1989 grouped BUMN into those:
* in pioneering fields
* that produce goods which for security reasons must be controlled by the government
* which were set up to accommodate strategic policies by the government
* which were established to protect and increase the people’s welfare

Table 1. Measurement Criteria, Value, Target, and Performance Evaluation (in Percentage)

<table>
<thead>
<tr>
<th>Measurement Criteria</th>
<th>Target</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>12.0</td>
<td>75.0</td>
</tr>
<tr>
<td>Liquidity</td>
<td>150.0</td>
<td>12.5</td>
</tr>
<tr>
<td>Solvability</td>
<td>200.0</td>
<td>12.5</td>
</tr>
</tbody>
</table>

not relevant to the duties assigned to the group, because it is only a part of the commercial objectives to gain profit and survival, and because it is applied to all BUMN without considering their grouping. Ministerial Edict 740/1989 have established success rate to be related to wages as the incentive which will hopefully raise motivation to increase performance. By establishing identical target and value for all of them, the measurement criteria should reflect the management’s responsibility. Those who have never attempted expansion will have higher success rate than those which are about to expand, still expanding, and finished expanding. If ex-
pasian is funded more by loans than by
internal sources, then its capital structure
will cause high interest obligation. Rising
investment leads to higher overhead costs
and depreciation, so that the company will
experience lower profit at the sum of its
commercial operation stage, and lower
solvability which will affect success rate.
Success rate based only on profitability,
liquidity, and solvability will cause large
expanding companies to have lower suc-
cess rate and its directors to receive equal
or lower salaries than smaller, more stag-
nant companies. Measurement criteria that
do not reflect responsibility and authority
will give rise to negative attitude toward
management supervision system, so that
the goals of giving incentives will not be
reached.

BUMN are stimulated to increase its
efficiency by assigning profitability value of
75% in performance evaluation. Pro-
fiability is an indirect indicator of efficien-
cy but can be misleading. High profit mar-
gin can be caused by high prices due to
monopoly holding. High profitability can
happen if the capital is low due to lack of
investment and not due to high efficiency.
Capital restructurization by transforming
long-term loans into equity can increase
profitability since it leads to lower intei-
rest. This will also affect solvability becau-
se the ratio of long-term loans and internal
capital is lower. However, the measure-
ment criteria does not include productivi-
y.

Finance Minister's Edict 826/1992
include the additional measurement of cost
efficiency, operational ratio, and produc-
tivity. Measuring efficiency is done by
measuring cost efficiency, operational ra-
io, and profit margin. Measuring pro-
ductivity will depend on the type of busi-
ness the BUMN is involved in. In manu-
facturing industry, productivity is meas-
ured by levels of usable capacity, and labor
productivity. In agro-industry, productivi-
ity is measured by products per hectare of
land.

Measurement evaluation ratio is de-
finined as 70 to 30. Profitability target is
defined based on an average obtained from
previous yearly figures of identical BUMN.
This is measured chronologically, regard-
less of future developments. It determines
the standard for identical industries facing
the same set of business risks. This is an
improvement because it is more realistic
in setting goals but does not set a target for
solvability and liquidity.

Grouping and Performance
Evaluation

Performance evaluation is a sub-
system of management supervision sys-
tem which function as feedback, and can
act as an element of supervision to deci-
sions which require further consideration.
Performance evaluation will determine to
what extent the defined goals are reached,
so as to be aware of its position. Measure-
ment criteria is an indicator of success
which measures how close the results are
to the objectives. Because company objec-
tives are not the same and with differing
conditions and environments, it requires
different sets of measurements. There are
about 200 BUMN in Indonesia with dif-
ferent types of ownership, supervision,
marketing, and public interest. These dif-
ferences will affect their objectives, be-
havior, and performance. In performance
evaluation, these differences will surely
affect the measurement criteria to be used
to measure success.
Evaluation of Organizational Success

As a two-dimensional organization, organizational success evaluation is done by judging its success as a company and a tool of government policy. The government has established a system to evaluate their performance but it is not clear if it is measured as a bureaucratic body or by its managerial success. Judging from the government's measurement criteria, we may conclude that only organizational success is measured. In reality, success is related to salary of the directors as reward to performance. We can conclude that what is measured is managerial success.

In performance evaluation, the government defines its measurement criteria: profitability, liquidity, and productivity. These factors affect commercial goals because they measure the abilities to gain profit and the ability to fulfill short and long-term obligations, efficiency and productivity which will increase earning power and ability to face competition. By using the defined measurement criteria, performance evaluation is done in order to evaluate organizational success as a company that is able to reach and increase profit and to be self-sustaining financially and to maintain market position. Growth as one of the company goals is not evaluated since only one year of data is considered.

If performance evaluation is meant to evaluate success as a company and success as a tool of government policy then the measurement must be able to calculate achievement of commercial and non-commercial goals. As a company, BUMN bears the same commercial goals as a private company, such as profit, growth, and sustainability which are all important to increase the company's value. As a tool of government policy, their goals are to increase economical efficiency, as a source of national income, equal income distribution, and other goals which are macro in character such as providing public services as acting as stimulants for development and business. Which goals are to be assumed will constantly change because the conditions are also changing. Their goals are also different because they are producing different products.

The difference in goals will be more transparent in the case of individual BUMN and will affect the establishment of measurement criteria to be used in performance evaluation. BUMN can be classified into many types; if such differences are taken into account, the number of criteria can be hundreds.

Factors which differentiate BUMN are its founding intentions, status by law, organizational structure, socioeconomic background, market situation, technology level, capital, economic sector, and decision making system. These factors can affect their functions as a tool of government policy because they cannot change their behavior. The factors which can be used as criteria in grouping is it's founding intentions and economic sector. Founding intentions explain the goals to be reached. Economic sector shows the targeted consumer groups and the level of social responsibility.

Managerial Performance Evaluation

Managerial supervision is a process to motivate and encourage people to execute organizational activities in order to reach their goals, and to correct mistakes and excesses in the use of resources occurring so far. Consequently, evaluation of managerial success directly influence BUMN's performance. To enable the evaluation to yield positive feedback, the
criteria is to be used must reflect responsibility and authority.

Inanimate owned company, unlike all decisions concerning investment, contracts with third parties, and others. This role shifts the spotlight of its decision making to go beyond company limits, thus in effect becoming the government's decision. The horizontal scale must add one more component, executive of government decisions. Government factor will cause evaluation of managerial success to be placed within the confines of managerial performance. There are two approaches: in grouping for success evaluation i.e. responsibility center approach, and relative scale theory.

Center of Responsibility Approach

Performance evaluation is an integral part of management control system. This system is made up of processes and procedures. Its structure consists of elements which form a system. Process is the working method of elements to reach objectives. One of the elements is responsibility center. This organization unit is led by a manager who is responsible for inputs and outputs. Each center can be grouped based on its characteristics of input and output relationship on monetary basis. Figure 1 depicts the structural organization of our BUMN which resembles divisional organization. There are 14 departmental ministers and RPIS which oversees several BUMN. Placements into certain departments is based on its production, just as is in private companies. Each minister oversees several BUMN which are headed by directors that are autonomous. Analogous to divisional organizations, departments can be seen as one company: ministers are central leaders while directors are the head of the center of responsibility. Based on relationship between input and output, BUMN can be grouped as follows.

Profit Centers are BUMN whose division is capable of maintaining the volume and quantity of input and output which can be measured in monetary term. Pricing is beyond the control of managers because it is defined by market mechanism, or established by the government based on economic, social, and political factors. Consequently the factors which influence profit that can be supervised by management are quantity and quality of input and output.

The measurement criteria for profit centers is profit which is defined as total income subtracted by cost.

Investment Centers are profit centers which uses return on investment (ROI) as criteria that measures profit in relation to investment. A BUMN is an investment center if its directors are authorized to make decisions on investment. However, BUMN directors do not have such authority without the consent of departmental ministers and finance minister. Therefore, it cannot be considered as investment center so that the use of ROI as a measurement criteria is not appropriate.

Expenditure centers are centers of responsibility whose managers do not supervise and produce volume, or whose output cannot be stated quantitatively and in real currency. For companies which upload its original mission, results cannot be measured only in monetary term, but also by its positive external impacts for successfully completing its mission. In France, the program is known as contract system, which consists of a contract between the government and BUMN. This contract is a measurement criteria which emphasize cost because it is easier to measure monetary value than social benefits.

Research, development, and training of workforce are strategic investments whose
worth cannot be measured in monetary terms. These high cost plans must be undertaken by BUMN because the private sector cannot be expected to incur enormous cost. Its results will not be apparent for several years. The measurement criteria will not be total profit but the directors' commitment to budget plans which have been approved by the government.

Centers of Standard Cost is a unit whose managers are not able to supervise price so that they are not responsible for total profit. If production is behind schedule or product quality is not up to standard, then other units will be affected. This center can be set up after input needed for each unit can be set. This center is made up of BUMN that provide public services where the price is fully controlled by the government. The criteria is not total profit but efficiency rate and ability to meet demands as long as those lie within the production capacity.

Centers of social responsibility have a social intention because decision making is more geared to political and economic than commercial considerations. The measurement used will not be profit but ability minimize cost due to pricing that is lower than production cost. Loss can be kept minimal by increasing efficiency and productivity in order to minimize per unit cost. BUMN which produce diverse products can use products whose price is free from government control to cross-subsidize products with fixed prices. This subsidy can decrease (loss due to pricing that is lower than its production cost). Managerial success can be measured by their success in creating business opportunities.

As a two-dimensional organization, grouping into specific categories are difficult because profit and social responsibility elements are found in all BUMN with varying degree. Evaluation of managerial success must take this factor into account.

Relative Scale Theory
BUMN is an organization with public and private sector dimensions. Its essence lie in their combination. Balancing between its two dimensions is always a problem. Too much emphasis on the public sector will sacrifice its other dimension. Relative scale theory is a pragmatic approach which states that balance will shift to the public or the private sector dimension depending upon environmental conditions such as socioeconomic system, decision making process, goal setting, and relative position in market structure.

Defining Measurement Criteria
The process of defining measurement criteria is meant to measure managerial success. Success in measurement is related to the salaries received by the managers. This is important because it directly influences performance. However, measurement criteria only measures part of the goals to be achieved i.e. the commercial goal, and do not take into account managerial responsibility for performance. Defining measurement criteria to evaluate managerial success will take into account managerial responsibility for performance by using measurement criteria that measures success in attaining commercial and noncommercial goals. This process will start with formulation which is an indicator to measure results compared to goals. Therefore, its formulation must be in accordance to operational goals.
Objectives and Criteria of Success

BUMN objectives can be outlined with the following criteria: giving contribution to economic development which can be gauged by the amount of FDB produced, contribution to national income in the form of dividends and profit received by the government, and currency in exchange for export products. Profit and return are integral sources of income and is derived from profit retained by the company. Profit yielded is measured by return on investment.

Success at providing goods and services that are high quality and affordable for the people is measured by comparing production to national demand as potential demands. Technical efficiency is an indicator of price control because efficiency is a ratio of input to output. Productivity is an indicator of success in improving production output per hour or increasing output by certain input. This measurement is complementary to increasing efficiency. Quality indicator can be inferred from the number of goods returned or claims by consumers.

Initiating services that are not provided by the private sector involves investment by BUMN. To measure success is in its execution. Initiating services which complement the private sector and cooperative means providing goods and services that are needed by the people. Because it is ambiguous, measurement will measure competition from existing market and how active it is in providing guidance to small-scale industries and cooperatives. Because success is an external indicator that is not reflected internally, therefore, success indicators will be identical to the two previous goals. However, if guidance is considered a means to utilize relationships, then success can be measured using input to output ratio analysis.

To be active in supporting national development is a reaffirmation of BUMN functions as national development, as stated previously. Their objectives are to achieve equal distribution of income, improving people's welfare, providing jobs, and generating income.

Formulation of criteria will outline its process, in addition to figures and values that are related with goals and targets to be reached. Mission accomplishment is criterion that cannot be assessed quantitatively but can be stated with ranking to enable measurement of achieving goals. Pricing by government will lessen the board of directors' supervision of factors and will affect the opportunity to make profit. Because managerial success is related to salary, therefore, its limitation must be considered when formulating goals. This will determine ranking based on results, while scoring is related to ranking. The score will determine effectiveness in fulfilling the target.

Determining Weight

This is the last step in formulating measurement criteria. Success rate determination model in Table 2 is only effective when all BUMN are grouped into distinct categories. This is possible if each of them only produces one or several products for the same consumer groups and receive the same treatment from the government. However, their profiles show the diversity of products being produced which causes ambiguous government policies. This is because the products aimed at different consumer groups with different goals and different markets (domestic vs. foreign).

Ambigous policies makes it impossible to group BUMN into clear categories. Therefore a new method of grouping them must be found. They are a combination-
Table 2. Priority Comparison as Perceived by BUMN Top Management and Government Officials

<table>
<thead>
<tr>
<th>Priority</th>
<th>BUMN Top Executive</th>
<th>Government Official</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority 1</td>
<td>Increasing Value Added</td>
<td>Survival</td>
</tr>
<tr>
<td>BPIS</td>
<td>Public Works</td>
<td>Growth</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Survival</td>
<td>Increasing Value Added</td>
</tr>
<tr>
<td>Industry</td>
<td>Growth</td>
<td>Stability</td>
</tr>
<tr>
<td>Priority 2</td>
<td>Efficient Resource Allocation</td>
<td>Growth</td>
</tr>
<tr>
<td>BPIS</td>
<td>Public Works</td>
<td>Profit</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Efficient Resource Allocation</td>
<td>Profit</td>
</tr>
<tr>
<td>Industry</td>
<td>Efficient Resource Allocation</td>
<td>Growth</td>
</tr>
<tr>
<td>Priority 3</td>
<td>Growth</td>
<td>Efficient Resource Allocation</td>
</tr>
<tr>
<td>SPIE</td>
<td>Public Works</td>
<td>Survival</td>
</tr>
<tr>
<td>Industry</td>
<td>Survival</td>
<td>Survival</td>
</tr>
<tr>
<td>Priority 4</td>
<td>Survival</td>
<td>Efficient Resource Allocation</td>
</tr>
<tr>
<td>BPIS</td>
<td>Public Works</td>
<td>Increasing Value Added</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Efficient Resource Allocation</td>
<td>Increasing Value Added</td>
</tr>
<tr>
<td>Industry</td>
<td>Profit</td>
<td>Increasing Value Added</td>
</tr>
<tr>
<td>Priority 5</td>
<td>Increasing Employment Opportunity</td>
<td>Increasing Employment Opportunity</td>
</tr>
<tr>
<td>BPIS</td>
<td>Public Works</td>
<td>Efficient Resource Allocation</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Survival</td>
<td>Survival</td>
</tr>
<tr>
<td>Industry</td>
<td>Stability</td>
<td>Save Foreign Exchange</td>
</tr>
</tbody>
</table>

The table above presents the comparison of priorities as perceived by BUMN Top Management and Government Officials. The priorities are categorized into different sectors, and each sector is associated with specific values that reflect the importance and strategies pursued by the respective agencies. The priorities range from increased value added, survival, growth, efficiency in resource allocation, profit, and stability. The data suggest that both sectors prioritize similar goals, with slight variations in the emphasis on specific strategies. This indicates a shared understanding of the economic landscape and the need for balance in resource allocation and strategic planning.
cannot be stated in money and because relative balance between the two dimensions are determined by market structure, therefore, it is more appropriate to group them based on SBU.

Measuring Public Benefits

Motivating the success of a company cannot be seen from financials' profit or loss. BUHM's are tools of government policy whose existence is for public interest. Therefore, profit/loss calculation must be viewed from the society's standpoint by measuring financial profit/loss and from the company's standpoint by measuring private gains. Therefore, some adjustments must be made to the profit/loss figures as follows:

- Government's share of yield in the form of direct tax i.e. income tax
- Creditors' share of yield in the form of interest for public loans
- People's share of yield in the form of expenditure for public purposes and negative externalities created by BUHM activities.

Dividends in kind is 5 percent of profit contribution for assisting cooperative and small scale industries. It includes contribution to regional government and irrigating finance for supporting FIR before it is turned over to society. All of these expenditures are added to BUHM's private gains because viewed from the people's standpoint those expenditures do not reduce profits but is only a transfer payment.

Nonoperational income in the form of interest from funds deposited in banks or divested, bank certificates, rental of building and land, and capital transfer gains. Often nonoperational income will be subtracted from private gains because it does not increase revenue from the society's standpoint.

Depreciation and amortization are added to private gains because from the society's standpoint both are not considered as costs. Depreciation and amortization are unpaid costs and calculated as costs. Depreciation is a reserve set up by the company to maintain its stock of replacing outdated machineries with new technology or by replacing costly manual labor with another production factor, the machine. New technologies and wage increase are contribution to national development.

Opportunity cost or capital must be subtracted from BUHM's private gains. This cost is calculated for all expenses of capital. This includes overstocking of raw material and unsold finished products. Some of them been bad debts whose opportunity cost must be calculated. This will be subtracted from private gains. This must be done because excess capital is a waste of public resource which can be utilized by the private sector.

Research and training costs are strategic expenditures for the development of the company. It is added to private gains to perform measurement.

Positive externalities caused by government policy that is lower than market price leads to consumer's surplus. This will reduce BUHM's earnings but it will increase the society welfare which must be added to private gains. Positive externalities due to facilities which can be used by the people is not included in dividends in kind because all benefits gained by the people are included in the cost. If the facilities are in the form of streets and electricity power, the proportion of usage of streets by the people is multiplied by maintenance cost and the proportion of electricity power usage by the society is multiplied by production cost, are all added to private gains.
After-tax direct subsidies are not substra-
ted from private gains because they are
transfer payments from the government to
BUMNs. These are indirect transfers from
the people to the government. The ability
to reap public gains is equal to adjusted
private gains divided by operating fixed
assets after adjustment of price increase
due to inflation and damages which is less
than depreciation.

Evaluation based on public or private
gains is a temporary evaluation. BUMNs
are dynamic organizations that need a sys-
tematic evaluation spanning over years.
Evaluation based on constant base price
and trends in public gains during several
years are diagnostic indicators which de-
mystifies public gains as a static indica-
tor. Judging their success must also take
into account such dynamic indicators as
research and development, training, main-
tenance, and growth in the future.

Group Objectives Towards
Priority of Targets and
Managerial Perception

BUMN Group Objectives Priority

There are no differences in objectives
between BUMNs which have different
goals. All considered their goals to be
equal because Govt. Jrg. 3/1998 has stated
their goals to be equal. The difference lies
in their priority level. Difference in prior-
ity between groups with different goals
are tested by using Kruskal-Wallis ana-
ysis model. Here pair comparison forced
choice are used in measuring objectives
priority based on the top managers' percep-
tion for each groups.

The objectives priorities are profit,
survival, growth, stability, efficient allo-
cation of resources, increasing incomes,
conserving foreign exchange, increasing
job creation or availability, initiating new
business, assisting small-scale industries,
and promoting regional development. The
priority values for each group is based on
objective values. The higher the priority
the more prominent its value.

All BUMN put a main priority on
growth. This means that long-term goals
are more important than short-term ones to
reach profitability. In all groups, mission-
like goals such as initiating business, assist-
ing small-scale industries, and regional
planning are all given low priorities. Evi-
dently BUMN group did not affect
formulation of the objective priorities. Go-

cernment's demand for efficiency and the
increasingly competitive environment, in
addition to deregulation which lowers go-

cernment subsidy, prompted company
head to focus on the objective of acco-

crating a company that must grow and sur-
vive.

However, actual behaviors are not
uniform. Actions taken do not necessarily
follow stated objectives. It is dependent on
certain environmental conditions and sit-
uations. It is true in the case of BUMN
management who are facing competition
and demand to increase efficiency, in ad-
dition to deregulations that decrease or
change government facilities and subsidies.

Objective Priorities as Perceived by
BUMN Top Management

Perception and motivation are two
factors which affect managerial supervi-
sion because it is related to human factor.
For management control system at go-

cernment level, matching perception bet-
ween top management and the govern-

dent (departments) is crucial because it
guarantees achievement of stated goals.
For performance evaluation, matching
perception will enable fair evaluation for national and personal interests.

To what extent are perceptions between top management and government officials matched in terms of establishing priorities and evaluation criteria? Matching perception on priority is crucial because of the emboldened objectives. Therefore, such evaluation requires formulation of evaluation criteria to be used. Perceptions that need to be matched are BUMN’s president and directors of relevant department, economic and finance division of BPJS, and sub-directorate heads of the ministry of finance. In fact they are all involved as shareholder. The objective priority variables to be used are profit, survival, growth, stability, efficient allocation of resources, increasing or conserving foreign exchange, increasing job availability, assisting small-scale industries and promoting regional development.

Table 2 compares priority based on the perceptions of the head of BPJS and other officials. There is no significant difference between the perceptions of BUMN management and government officials in establishing priorities. Both parties place emphasis on growth objectives, profit, growth, stability, efficient allocation of resources, increasing or conserving foreign exchange, and increasing job availability. Difference for each priority distinguishes them apart. Therefore, to avoid disparity a set of core concepts are drawn up following talks between BUMN top management and government officials. This plan is a systematic approach designed to clarify objectives. For the top management this plan acts as a contract between the company and the government which can be used as a means to monitor the objectives to be achieved. Government supervision is no longer limited to process but also to performance.

Perception of BUMN Top Management in Establishing Weight of Evaluation Criteria

To evaluate success in achieving multiple goals, a set of evaluation criteria to be used in performance evaluation must be formulated. In this case pair comparison, forced choice will be used in measuring performance criteria based on the perceptions of BUMN top management and government officials who are under one department. Criteria variables to be used are profitability, liquidity, solvability. ROE for year 1 compared to previous year, input and productivity, mission achievement, contribution to national income, and increasing job opportunity. The argument for each variable is as follows. Profitability is a measure of profit, liquidity and solvability is a financial measure of survival, input or productivity is a measure of financial gain or profit, liquidity and solvability are financial measures, productivity is a measure for assisting small-scale industries and promoting regional development, contribution to national income is a measure of generating and conserving foreign exchange, and increasing job availability is a measure of providing jobs.

Table 3 shows the comparison of evaluation criteria based on the perceptions of BUMN top management and government officials. Table 4 depicts value of evaluation criteria based on the perceptions of top management and BPJS officials.

Although BUMN top management and government officials agreed on the most important goals and placed the highest value of evaluation criteria for the same type of criteria, their level of preference are not always equal. Level of preference is a statement which is shaped by
### Table 3. Comparison of Evaluation Criteria Based on the Perceptions of BUMN Top Management and Government Officials

<table>
<thead>
<tr>
<th>Heighten Weight</th>
<th>BUMN Top Management</th>
<th>Government Officials</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Highest Weight I</strong></td>
<td>Mission Implementation</td>
<td>Productivity, Supply</td>
</tr>
<tr>
<td>BPSIS</td>
<td>RLS</td>
<td>RLS</td>
</tr>
<tr>
<td>Public Works</td>
<td>RLS</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>RLS</td>
<td>[VA] / VA&lt;sub&gt;n&lt;/sub&gt;</td>
</tr>
<tr>
<td>Industry</td>
<td>RLS</td>
<td>Mission Implementation</td>
</tr>
</tbody>
</table>

| **Highest Weight II** | | |
| BPSIS | [VA] / VA<sub>n</sub> | [ROI]<sub>a</sub> or [ROI]<sub<n</sub> |
| Public Works | Increasing Government Revenue | [ROI]<sub>a</sub> or [ROI]<sub<n</sub> and [VA] / VA<sub>n</sub> |
| Agriculture | [ROI]<sub>a</sub> or [ROI]<sub<n</sub> | [ROI]<sub>a</sub> or [ROI]<sub<n</sub> and RLS |
| Industry | [ROI]<sub>a</sub> or [ROI]<sub<n</sub> | [ROI]<sub>a</sub> or [ROI]<sub<n</sub> |

| **Highest Weight III** | | |
| BPSIS | RLS | RLS |
| Public Works | Supply, Productivity, Mission Implementation | Supply, Productivity |
| Agriculture | [VA] / VA<sub>n</sub> | Investasi (g) Investasi (f-1) |
| Industry | [VA] / VA<sub>n</sub> | [VA] / VA<sub>n</sub> |
### Table 4. Value of Evaluation Criteria Based on the Perceptions of BUMN Top Management and Government/BPIS Officials

<table>
<thead>
<tr>
<th>BUMN Top Management</th>
<th>Perception by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance/BPIS Officials</td>
<td>Top Management and BPIS Official</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Industry/manufacture</th>
<th>There is no significant difference between BUMN Top Management and BPIS Officials at Ministry of Industry in defining weight of performance criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>There is no significant difference between BUMN Top Management and BPIS Officials at Ministry of Industry in defining weight of performance criteria</td>
</tr>
<tr>
<td>Public Works</td>
<td>There is no significant difference between BUMN Top Management and BPIS Officials at Ministry of Industry in defining weight of performance criteria</td>
</tr>
<tr>
<td>BPIS</td>
<td>There is no significant difference between BUMN Top Management and BPIS Officials at Ministry of Industry in defining weight of performance criteria</td>
</tr>
</tbody>
</table>

**BUMN Policy Alternatives**

**Grouping by Objectives and Evaluation**

By its stated objectives BUMN can be classified into 4 groups i.e. those that aim to provide infrastructure distribution of goods, those that aim to be a stimulator of economic development, those who generate revenue to be used to finance government expenditure, and this grouping is based on product and consumer approach. Differences in BUMN's public and private sector dimension expressed by the level of government involvement in marketing exerts by differing structure and market situation lead to grouping BUMN into 2 groups, those that are administered by the government and those that follow market mechanism. To calcu-
ian performance which incorporate all units in BUMN, the formula must con-
sider: balancing activities of each unit compared to the whole-enterprise and the
use of compound evaluation criteria that
are appropriate for commercial and non-
commercial goals. Grouping of BUMN
units will enable the calculation of group
goals when formulating evaluation criteria
within for commercial and non-commercial
goals. Assigning values to each goal is
based on considerations for each BUMN
according to situation and condition
surrounding the company. Scores are given
according to comparison of results to stated
target.

Impact of environment and BUMN
profit management behavior. Sharp compe-
tition, government demand for efficiency
and deregulation which decrease and create
facilities/leisure have led the directors
to emphasize growth, efficient allocation
of resources, and sustainability of busi-
ness.

Relationship between incentive and
motivation. MLS value of 30 percent set by
the government has been successful in
motivating BUMN top management to
increase their profit. This is essential to
establishing criteria of success and the
rewards to be given. BUMN function as
development agent is not counted (C) value.
Nevertheless it is insufficient to success
and rewards. Consequently top manage-
ment tends to set low goals for compo-
nents that are related to BUMN's social
mission.

Considering managerial success,
evaluation criteria should reflect responsi-
bility and authority so that performance
evaluation will lead to a positive reaction
that will increase the motivation to achieve
their goals. Accordingly, several things
must be considered. Differences in go-

ernment intervention for BUMN groups make it necessary to group them
into two subcategories, i.e. those adminis-
tered by the government and those who
follow market mechanism. This shift in
grouping will affect the autonomy and
authority of the top management in deci-
sion-making and profit-making opportuni-
ties. It will influence their goals especially
their total profit and what commercial goal
objectives.

In determining goals and values, the
trend to be considered should be for 5 to
10 years and keeping in mind long-term
goals and future developments. Perfor-
mance results achieved for the previous
year. It is the accumulation of several
years process. Therefore, evaluation should
not be confined to the year being evaluated
without considering year-to-year de-
velopment.

With a multidimensional policy
caused by the variety of BUMN products,
evaluation criteria should consider the
proportion of each BUMN to all activities.
Assets or investment and the number of
workforce must be compiled.

Government regulation requires all
BUMN to set aside 5 percent of profit
to assist small-scale industries. This is de-
pendent on their profitability. Contribu-
tion to the program is not the only method
of assistance. A more effective way would
be to utilize the partnership method. By
this way small-scale industries can solve
their capital as well as their marketing
problem. Therefore, mission goals are still
a variable in the evaluation criteria.

Performance evaluation of a com-
pany cannot be separated from calculation
of profit. BUMN have explicit dimension.
Therefore, the government should not
judge them based on only on financial
profit. The social contribution they pro-
vide should also be considered.
To avoid disparity in setting goals and evaluation criteria between top management and government officials, the management supervision must resemble a divisional structure. A minister as representative of shareholders oversees several BUMN that are headed by a board of executives as manager of center of responsibility.

The ministers and BPIS oversee BUMN in accordance to the guidelines of their departments. Apparently, there no relationships between the departments.

Planning by departments are a continuation of plans drawn up by each BUMN. Lack of coordination has obstructed the government in guiding and supervising them without a coherent strategy on this sector. Existing strategies are macro in character and stresses socioeconomic aspects. With the coming of globalization and deregulation, BUMN still retain its social function as development agent that will facilitate economic development and lessen economic gap in society. Based on SBU concepts they can be seen as a com-

Figure 5. Strategic Planning of BUMN Sector
proud portfolio of many businesses. All are planning their strategies based on their strengths and threats of competitor in the sector, just as it is in the private/Corporate sector. The reason is because their components have their own market segments and strategies.

SBU's implications are that long-term planning in the form of corporate planning must be done incrementally. With such consideration, long-term planning becomes a cohesive unit. By systemically dissecting BUMN's relationships, a synergy will occur in the sector. Parties...
involved in the BUMN supervision, top management and government officials, will use the same language in reaching their goals. This does not only apply between officials in one department but also to other department and the Finance Ministry as representative of the owners.

In defining evaluation criteria, corporate planning will affect the following:
1. The target to be achieved according to BUMN's long-term planning, in line with government policies for the sector.
2. The values for evaluation criteria of commercial and non-commercial goals for each BUMN group. This process is formulated at government level according to policies for each product. Furthermore, it should be in accordance to policies expressed in each BUMN strategic planning.

Conclusions

Management of BUMN sector is conducted mainly by formulating management control system using evaluation based on certain criteria. It is related to their characteristics, dimensions and the fact that they are multi-product companies. Evaluation criteria based on their mission, goals, and objectives to be achieved. Therefore, a balanced formula incorporating all strategic activities and balancing commercial as well as non-commercial goals should be implemented. Two of the main areas to compare results so the stated target.

Performance evaluation used up to now have been BLS (profitability, liquidity and solvability). Existing performance evaluation contains some weaknesses such as unclear scoring of success, limited to commercial goals, and managerial success not adequately reflecting the scope of responsibility.

Grouping BUMN based on product and consumer demonstrates goals to be achieved as a tool of government policy, which covers their public and corporate dimension that reflect the scope of top management responsibility for performance. Therefore, it also influences their autonomy and authority as well as strategic units in decision making and enable them to achieve profit and opportunity.

There is a wide variation in BUMN management and operation. However, there are no differences in goals and priorities between groups with different goals. Government regulation have declared identical goals for them. Almost all of them place high priority for commercial goals. There are no significant correlation between objective priority and evaluation criteria for BUMN that are profit and social infrastructure oriented. The opposite is true for groups with the goal to foster development, as contributor of national revenue, and as revenue generator. There are no perception differences between top management and government officials in defining criteria values. Both parties see the most important goals as growth, business sustainability, and efficient allocation of resources. Preferences are subjective and dependent of someone's attitude.

In evaluating performance, composite score must be established based on certain values. Defining and comparing target score and actual performance is based on one year data but on need of several years, because of its dynamic and changing nature. Asset values and their multiple-product characteristic must also be considered.

Performance evaluation is management supervision sub system and function as a planning and supervision process. Defining and formulating performance evaluation criteria must be pre-
closed by defining long-term corporate planning. The government plays a bigger role in defining corporate strategies on long-term and macro-basis which demonstrate and establish goals and policies for the BI&MN sector as part of national development policies. This also applies to policies that enable them to go public and go international as a state-owned company. All policies above will carry the consequence of limitation by regulation, not only for national or domestic market but also for international market.

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