Implementation Model of Equity Participation in Regional Development Banks in Indonesia

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ABSTRACT

The purpose of this study is to analyze the implementation of competitive advantage in equity participation in PT Bank Pembangunan Daerah for the period of October 2020 which is still in the category of Commercial Banks Based on Business Activities 1. Specifically, this research also tries to build the best implementation model for regional capital participation to PT Bank Pembangunan Daerah which is integrated with the planning and budgeting system and integrated with regional development priorities. We operate qualitative method which aims to get the real picture by developing a process analysis using direct data sources from informants totaling 27 people with very competent status in the field of regional capital participation at PT Bank Pembangunan Daerah Bengkulu Province and Central Sulawesi Province. Creswell (2009) states that the research process involves questions and procedures that arise, data that is usually collected in a participant setting, data analysis that is constructed inductively from specific to general themes. The results of the study explain that competitive advantage is seen from the substance of the low cost strategy of 25 (twenty five) Regional General Treasurers as Regional Financial Management Officers, there are 20 (twenty) Regional General Treasurers as Regional Financial Management Officers stating that the implementation of competitive advantage is seen from the substance the low-cost strategy is still not optimal (80% of informants), and 5 (five) Regional General Treasurers as Regional Financial Management Officers explain that currently there is no implementation of the low-cost strategy in the series of processes for capital participation in the work area carried out by PT Bank Pembangunan Daerah Bengkulu and in the work area of PT Bank Pembangunan Daerah Sulawesi Tengah (20% Informants). The best implementation model to build the integration of the provincial/district/city government capital participation system into PT Bank Pembangunan Daerah in an optimal and regulatory manner with operations is: Phase 1, capital participation management is integrated with regional regulations on RPJMD, Restra SKPD documents, and RKPD documents. Stage 2, the management of equity participation is implemented in regional regulations concerning APBD, then realized and evaluated in the general meeting of shareholders and/or other coordination meetings.

Keywords: Bank, Equity, Participation, Finance, Integration, Qualitative
JEL Classification: G3

1. INTRODUCTION

The history of Regional Development Banks establishment based on the provisions of Law Number 13 of 1962 concerning Basic Provisions for Regional Development. The capital structure of Regional Development Banks is regulated by Government Regulation Number 35 of 1999 concerning State Equity Participation of the Republic of Indonesia in Regional Development Banks. Regional Development Banks function to collect public funds in the form of savings and channel them back to the community in the form of credit and/or other forms of banking product activities and have the main function as a strategic role holder in encouraging the regional regional economy. Collender and Shaffer (2003) explained that regional banks in their operations must focus on the empirical relationship between the banking market structure and banking regulations. Banking regulations are the basis for measuring the success of achieving regional bank performance in collecting funds in the form of deposits and channelling them back in the form of credit and other banking products to the public.
Law Number 1 of 2004 concerning the State Treasury requires every Regional Government to establish a Regional General Treasury Account at a bank that has been determined by the Regional Head. Most of the banks designated as regional treasury accounts are Regional Development Banks in each region. Regional Development Bank is one of the regional banks appointed as regional treasury holders in Indonesia. Regional Development Banks as one of the banks in the National Banking System have a significant function in the context of regional economic development. One of the competitive advantages of Regional Development Banks is being able to open service networks in regions by cooperating with regional governments to manage regional general cash accounts. The pattern of work carried out by Regional Development Banks is currently responding to the need for an orientation to improve banking services for the community and local governments. The banking performance orientation is intended to provide confirmation that business orientation must prioritize the interests of the community and cooperation partners which will have an impact on the achievement of successful performance (Porter, 1985).

List of core capital of 27 (twenty seven) Regional Development Banks in Indonesia in semester 2 of 2020, showing data that there are 2 Regional Development Banks that have not been able to leave the category of commercial banks based on business activity I (core capital of less than 1 trillion rupiah) as of October 2020 medium, namely Central Sulawesi Bank with a core capital ownership composition of IDR 956.599.000.000,- and Bank Bengkulu with a core capital ownership composition of IDR 853.116.000.000,-. Central Sulawesi Bank and Bengkulu Bank are ranked 24th and 25th in the ranking of Regional Development Banks assessed from the composition of the core capital structure. Furthermore, the Lampung Regional Development Bank and the Banten Regional Development Bank experienced a fairly good growth in core capital composition since 2019. The Lampung Regional Development Bank was in the composition of the core capital structure of IDR 697.368.000,- in 2019 increasing to IDR 1.042.806.000,- in 2020. Bank Banten has a core capital structure composition of IDR 154.139.000.000,- in 2019 increasing to IDR 1.561.982.000,- in 2020. The rapid growth of the Lampung Regional Development Bank and Banten Regional Development Bank are 2 (two) phenomena which is different from the conditions of the Central Sulawesi Development Bank and the Bengkulu Sulawesi Development Bank. In addition to optimizing banking services, the achievement of the performance target for equity participation is also one of the indicators for improving the internal capital structure of PT Bank Pembangunan Daerah which fulfills core capital in accordance with the provisions of the Financial Services Authority Regulation, where the shareholders are dominated by local governments, be it the government, provincial, district and city governments.

The implementation of the shareholder structure of regional governments varies widely, so far there is no national-scale technical policy that can provide regular core capital strengthening to strengthen the capital structure of Regional Development Banks in Indonesia. This regulatory weakness is one of the reasons why several Regional Development Banks have difficulty in fulfilling the required capital structure through the Financial Services Authority Regulation. Supporting the core capital strength of Regional Development Banks in Indonesia is implemented through regional regulations that regulate the composition and amount of capital participation that must be met by Regional Governments to Regional Development Banks. The format for the regulation of capital participation in Regional Development Banks has not yet been established as a standard model, this can be seen from the composition of the existing capital structure in 27 Regional Development Banks throughout Indonesia. The following is a breakdown of the core capital of 27 Regional Development Banks throughout Indonesia for the last 5 years (2016-2020) in Appendix Table 1.

In the end of October 2020, there were still 2 (two) Regional Development Banks with a capital structure composition below 1 trillion, namely the Central Sulawesi Regional Development Bank and the Bengkulu Regional Development Bank. Meanwhile, the Regional Development Banks that experienced a very rapid increase in capital structure for the October 2020 period were the Lampung Regional Development Bank and the Banten Regional Development Bank, whose composition of capital structures experienced a very significant increase in 2020, namely at a core capital position of above 1 trillion.

Other scientific studies on the topic of equity participation are still very limited since the 2009-2019 period. The direct research emphasizes the identification of factors that cause local governments as shareholders of PT Bank Pembangunan Daerah which tend not to fulfill their commitments to realize equity participation in accordance with the regional regulations of their respective provincial/district/city governments. This study tries to formulate the best implementation model to build the commitment of the provincial/district/city governments in realizing optimal investment in PT Bank Pembangunan Daerah in Indonesia. According to agency theory, Jensen and Meckling (1976), explains that agency describes the relationship between shareholders as principals and management as agents. Management is a party contracted by shareholders to work in the interests of shareholders. Because they are elected, the management must be accountable for all their work to the shareholders. Jensen and Meckling (1976) explain the agency relationship as “an agency relationship as a contract under which one or more person engages another person to perform some service on their behalf which involves delegating some decision making authority to the agent.”

In the equity participation system, according to agency theory, conflicts often occur between the principal and the agent, which can be reduced by aligning the interests between the principal and the agent. The presence of managerial ownership of shares can be used to reduce agency costs that could potentially arise, because by owning company shares, managers are expected to directly feel the benefits of every decision they make (Jensen and Meckling, 1976). Different facts occur in the implementation of local government equity participation in PT Bank Pembangunan Daerah, participation of capital participation by local governments is constrained by regulations that have not been formulated properly, so there is no attempt to provide certain limits in...
achieved the performance of capital participation towards the predetermined target. After regulatory problems, another dominant problem is that regional banks do not carry out and/or are not optimal in implementing the principles of competitive advantage in regional capital participation in PT Bank Pembangunan Daerah. This condition is one of the causes of the core capital of PT Bank Pembangunan Daerah until the period of October 2020 has not met the minimum target of core capital of 1 trillion. This research will provide an up-to-date contribution in the form of an optimal implementation model for local government equity participation in accordance with the provisions in the regulations governing regional capital participation which in previous studies have not found many formulations of the ideal equity participation model for improving share ownership structure PT Bank Pembangunan Daerah in Indonesia. Another contribution to the renewal of research is related to the inventory of what factors are the cause of local governments as shareholders in PT Bank Pembangunan Daerah tend not to carry out the function of competitive advantage in implementing capital participation in accordance with provincial/district/city government regulations.

2. LITERATURE REVIEW

2.1. Competitive Advantage
Competitive advantage was first recognized in 1985 as a companion to competitive strategy. Competitive strategy initially concentrates on industries and firms. One of the operational focuses of competitive advantage work is looking at the basics of sustainability in companies and industries. The practice of competing in the industry requires companies to carry out various separate activities such as ordering, calling customers, assembling products, and training employees. Competitive advantage, also introduces the concept of the value chain, a general framework for thinking strategically about business activities. The activity-based enterprise view also provides a basis for thinking about business-based strategies (Porter, 1985). Competitive advantage explores the role of complementary products or services in competition and competitive advantage in several industries. Activities that support competitive advantage are the ability of a company to achieve economic benefits above the profits that can be achieved by competitors in the market in the same industry. Companies that have competitive advantages always have the ability to understand changes in market structure and are able to choose effective marketing strategies. Competitive advantage is the company’s ability to create a product or service offering that is more valued by customers than competing companies (Porter, 1985).

Porter (1985) states that competitive advantage is the ability obtained through the characteristics and resources of a company to have higher performance than other companies in the same industry or market. The issue of competitive advantage became very popular after Porter developed the concept. Porter (1985) also stated that a competitive advantage exists if there is a match between the distinguishing competencies of a company and the critical factors for success in the industry that cause the company to have far better performance than its competitors. There are two basic ways to achieve competitive advantage. First, this advantage can be achieved when a company adopts a low-cost strategy that enables it to offer products at lower prices than its competitors. Second, with a product differentiation strategy, so that customers perceive that they are getting unique benefits that are suitable for an adequate price.

The generic competitive strategy explains that the company always puts itself in one of the main aspects, namely: a comprehensive cost advantage strategy or a differentiation strategy. The target is relatively narrow, so the strategy will develop into a focused strategy (Porter, 1985). This generic strategy is distinguished according to the competitive advantage it has and the intended target market, namely: (1) the low cost strategy emphasizes efforts to produce standard products (same in all aspects) with very low unit costs. These products (goods/services) are usually aimed at consumers who are relatively easily affected by price shifts or use price as a decision-making factor, (2) product differentiation strategies, encourage companies to be able to find their own uniqueness in the target market. The uniqueness of the product (goods/services) that is put forward, allows a company to attract the maximum interest from potential consumers, (3) focus strategy, used to build competitive advantage in a narrower market segment. This type of strategy is intended to serve the needs of consumers whose numbers are relatively small and their decision to buy is not influenced by price.

2.2. Implementation
Strategy implementation is an administrative task related to the design and management of systems to achieve the best integration of people, structures, processes and resources in achieving organizational goals. Strategy implementation is often called the action stage of strategic management (David, 2011). Strategy implementation is an administrative task related to the design and management of systems to achieve the best integration of people, structures, processes and resources in achieving organizational goals (Spekman, 1983). Administrative strategy implementation focuses on the work pattern of structures, processes and resources to achieve certain goals in a public organization. The integration of structures, processes and resources is the main way of thinking to see the success of implementation in public organizations. Some processes that can cause implementation failure, are more due to the malfunctioning of the integration system in implementation management.

The implementation of an effective strategy basically pays attention to the relationship between seven factors, namely strategy, structure, systems, style, staff, skills, subordinate goals (Okumus, 2003). Strategy implementation is an administrative task related to the design and management of systems to achieve the best integration of people, structures, processes and resources in achieving organizational goals (Spekman, 1983). Strategy implementation is often called the action stage of strategic management (David, 2011). In principle, implementation in the context of strategic management is the process by which the organization moves from the formulation of strategic plans into the operations needed to achieve the specific goals and strategies identified in the plans. Implementation is an important part in a series of strategic management. The implementation of the feasibility analysis of the strategic plan objectives is successfully
implemented if the actual operations are in accordance with the well-planned operations and the actual results are in accordance with the planned or anticipated results. Strategic management is incomplete and of little value without effective implementation. The last element of strategic management is the implementation process (David, 2011), with implementation it can be seen the extent to which planning can run well in an organizational system or tends to the opposite.

2.3. Stakeholder Theory
One of the supporting theories that is used as a benchmark in this research is stakeholder theory. The word stakeholder first appeared in the management literature in an internal memorandum at the Stanford Research Institute, in 1963. The term stakeholder was intended to generalize the idea of shareholders as the only group requiring responsive management. Thus, the concept of stakeholders was originally defined as those groups without whose support the organization would not exist. The list of stakeholders initially includes shareholders, employees, customers, suppliers, lenders and the public. Derived from the work of Igor Ansoff and Robert Stewart in the planning department at Lockheed, and later Marion Doscher and Stewart at the Stanford Research Institute, the original approach served an important information function in the Stanford Research Institute’s corporate planning process (Freeman, 1984). The role of stakeholders in the organization is very important because it is in the dimension of mutual influence.

In subsequent developments the original definition of stakeholder (Freeman, 1984) was considered too broad by Mitchell et al. (1997), who questioned the more appropriate way to identify stakeholders in order to feel more certain about who are stakeholders and who are not. Mitchell et al. (1997) answer that question by describing 3 (three) identifying attributes that stakeholders may have that give the color of relationships, namely, strength, legitimacy and urgency. Mitchell et al. (1997) use the term stakeholder salience to be prioritized in the organization. Furthermore, Mitchell et al. (1997) defines stakeholder salience as the degree to which a manager gives priority to the demands of competing stakeholders. The most salience stakeholder is the stakeholder with the most attributes. Stakeholder salience will be given more attention and therefore will get priority (Ronald K. Mitchell et al., 1997).

Stakeholder theory explicitly considers the impact of corporate disclosure policies when there are different stakeholder groups in a company. Disclosure of information by companies is used as a management tool to manage the information needs needed by various groups. Therefore, management discloses this social and environmental responsibility information in order to manage stakeholders so that the company gets support from them. This support can affect the survival of the company. Mitchell et al. (1997) explain that stakeholder theory is a theory which states that all stakeholders have the right to obtain information about company activities that can influence their decision making. Stakeholders can also choose not to use the information and cannot play a direct role in a company.

2.4. Agency Theory
The second supporting theory that is used as a benchmark in this study is agency theory. Agency theory describes the relationship between shareholders as principals and management as agents. Management is a party contracted by shareholders to work in the interests of shareholders. Because they are elected, the management must be accountable for all their work to the shareholders. Jensen and Meckling (1976) explain agency relationship as “an agency relationship as a contract under which one or more person engage
another person to perform some service on their behalf which involves delegating some decision-making authority to the agent.” Agency relationship is a contract in which one or more people instruct another person to perform a service on behalf of the principal and authorize the agent to make the best decisions for the principal. If both parties have the same goal of maximizing the value of the company, it is believed that the agent will act in a manner that is in the interests of the principal.

Potential agency problems occur when the manager’s share of the company’s shares is less than one hundred percent. With the proportion of ownership that is only part of the company, managers tend to act for personal interests and not to maximize the company. This will later cause agency costs. Jensen and Meckling (1976) define agency cost as the sum of the costs incurred by the principal to supervise the agent. It is almost impossible for companies to have zero agency costs in order to ensure that managers will make optimal decisions from the shareholders’ point of view because of the large difference in interests between them. According to agency theory, the conflict between the principal and the agent can be reduced by aligning the interests between the principal and the agent. The presence of share ownership by managers can be used to reduce agency costs that have the potential to arise, because by owning company shares, managers are expected to feel directly the benefits of every decision they make.

According to Bathala and Moon, (1994) there are several ways that are used to reduce conflicts of interest, namely: (a) increasing share ownership by management, (b) increasing the dividend to net income ratio, (c) increasing funding sources through debt, (d) share ownership by institution. While the concept of Bathala and Moon, (1994), suggested several ways that can be done in reducing agency problems, namely: (1) Increasing insider ownership. The company increases the share of management ownership to align the position of managers with shareholders so that they act in accordance with the wishes of shareholders. By increasing the percentage of ownership, managers become motivated to improve performance and are responsible for increasing shareholder wealth. (2) The approach of external supervision is carried out through the use of debt. The addition of debt in the capital structure can reduce the use of shares so as to minimize the agency costs of equity. However, the company has an obligation to repay the loan and pay the interest expense periodically. In addition, the use of debt that is too large will also cause agency conflicts between shareholders and debtholders, resulting in agency costs of debt. (3) Institutional investors as monitoring agents.

Some researchers state that the form of stock distribution from outside, namely institutional investors and shareholders dispersion can reduce the agency cost of equity. This is because ownership is a source of power that can be used to support or challenge the existence of management, so the concentration or distribution of power becomes a relevant issue in the company. Agency theory explains the agency relationship that arises when people hire other people to delegate an authority in decision making. In agency theory, the principal are the shareholders, while the agent is the management of the company. Agency problems arise when a conflict of interest occurs between the principal and the agent. Conflicts that arise because of the maximum utility that does not meet each other between the two parties. The agent is morally responsible for optimizing the benefits demanded by the principal. However, managers also have a desire to gain wealth. Thus, it is likely that the agent does not always act in the best interests of the principals (Jensen and Meckling, 1976). The concept of agency theory according to (Jensen and Meckling, 1976) is the relationship or contact between the principal and the agent. The principal emplo ys the agent to perform tasks in the interest of the principal, including the delegation of decision-making authorization from the principal to the agent. In companies whose capital consists of shares, shareholders act as principals, and the Chief Executive Officer as their agent. The agency relationship sometimes creates problems between managers and shareholders. Conflicts that occur because humans are economic creatures who have the basic nature of self-interest. Shareholders and managers have different goals and each wants their goals fulfilled. The result is the emergence of a conflict of interest. Shareholders want a greater and faster return on their investment, while managers want their interests to be accommodated by providing the maximum compensation or incentives for their performance in running the company. Stock dividends are appropriate for investigating the complementary role of accounting information because their issuance is largely a paper transaction, and because they have been interpreted as signaling better future prospects.

2.5. Equity Capital

In Government Regulation Number 27 of 2014 concerning Management of State/Regional Owned Assets, it is stated that capital participation of the central/regional government is the transfer of ownership of state/regional property which was originally an inseparable asset into separated assets to be taken into account as state or regional capital/shares at the end of the year state-owned enterprises, regional-owned enterprises, or other state-owned legal entities. Furthermore, Government Regulation Number 1 of 2008 concerning Government Investment states that equity participation is a form of government investment in Business Entities by obtaining ownership rights, including the establishment of a limited liability company and/or the takeover of a limited liability company. In the management and accountability of state finances, there are several types of equity participation, namely, among others, Central government equity participation is the transfer of ownership of State Property which was originally a state asset which was not separated into separate state assets to be calculated as state capital/shares in State-Owned Enterprises, Regional-Owned Enterprises, or other Legal Entities owned by the State/Region.

In the regional revenue and expenditure budget, the inclusion of regional government capital into regional companies is one form of regional government activities/businesses to increase regional income for the welfare of the community. Based on the statutory regulations, it is stated that every capital investment or additional capital participation to a regional company must be regulated in a separate regional regulation concerning investment or additional capital. Equity participation is one form of local government investment. The definition of investment according to Government Regulation Number 12 of 2019 concerning Regional
Financial Management is the use of assets to obtain economic benefits such as interest, dividends, royalties, social benefits, and/or other benefits so as to improve the government’s ability to provide services to the community. The consistent implementation of investment in the form of equity participation according to Korkeamaki and Moore (2003) will support the growth of capital ownership well in a company.

2.6. Previous Research and Originality

The originality in this research is the contribution in the form of a model for implementing local government capital participation to PT Bank Pembangunan Daerah optimally in accordance with the provisions in the regulations governing regional capital participation which in previous studies have not found many formulations of the ideal equity participation model for improving share ownership structure at PT Bank Pembangunan Daerah in Indonesia.

Research related to investment, equity participation and investment development of regional development bank equity participation has been widely carried out by previous researchers. The research of Korkeamaki and Moore (2003) explains many things about convertible bond financing in investment in regional banking companies. Furthermore, research by Alpenberg and Karlsson, (2019) explains that the most dominant concept of capital investment carried out by the Swedish government is the rate of return on internal loans and the payback method. Research related to venture capital investment by Guo and Jiang, (2013) contributes to research related to the contribution of capital investment related to the development of entrepreneurial capital structure in China and related to the development of research and development on the part of banking companies on the evaluation of local banking products. Research (Zhang, 2012) on Venture Capital Investment Selection Decision-Making Base on Fuzzy Theory contributes to research explaining that research and development by banking companies on the evaluation of local banking products plays an important role in the sustainability of the investment control system.

Another study was conducted by Sevilir (2010), which discussed the efforts of local banking companies to prioritize the role of human resources in the development of local banking investment. Iyer et al. (2012), in their previous research discussed the concept of decision making in banking capital investment. The research entitled “The effect of a decision aid on risk aversion in capital investment decisions” is a study that can provide a lot of information about decisions in capital investment that greatly affect the capital development of banking companies. Paquin et al. (2016), focused more on Project Efficiency Management and Project Risk Management Programs and the research of Menezes et al. (2015), contributed to explaining the solution to capital investment planning problems by considering the stages of capital investment planning. - the transitional stage with the term Capital Investment Planning and research by Chaudhuri et al. (2010), has a version that also makes a good contribution to investment banking research by developing the concept of Investments in the Indian manufacturing sector.

In another study, Jackson and Keune (2013), providing an overview of the role of decision-making in capital investment, research by Zasada et al. (2015), supports previous research on the development of local banks which focused more on Rural Development Policy in the field of capital investment in banking companies. Furthermore, research by Paravisini et al. (2008), entitled “Local Bank Financial Constraints and Firm Access to External Finance” explains the financial constraints experienced by regional banks, and then contributes in the form of strategy formulations that can be implemented by regional banks to provide banking products in the field of credit. Collender and Shaffer (2003), also provide an overview in research on how to structure regional banks by changing the working behavior of banking organizations. The focus of the research is more on how changes in the banking organization can affect policy efforts to structure the work system of the regional government. Koller (2007), in his research “The World’s Local Bank”: Globalization as a Strategy in Corporate Branding Discourse, provides information that in terms of regional banking it is also known as branding. The intended branding is expected to help banks to expand more in offering their products to the public.

Farragher et al., (2007), also explained that it is necessary to have a performance audit for capital investment in banking organizations in order to provide information in the form of periodic evaluation results in the banking work system. Yu (1998), in his research also provides an explanation and support for the concept of changes in investment structure or capital structure that can affect regional sectoral economic growth. Collender and Shaffer (1886), in his research entitled “Local bank office ownership, deposit control, market structure, and economic growth” explains the problem of mergers between local banks which are not expected to affect the regional economy. In certain cases, local bank mergers are one of the solutions for strengthening capital or investment in the regions. Schilder (2006), put forward the concept in his research entitled “Does Venture Capital investment really require spatial proximity? An empirical investigation” with a contribution explaining that capital investment in banking is related to personal closeness in a social relationship. The researcher explains that investment matters are behavioral matters that can provide encouragement or not in planning to make a decision in the organization. Furthermore, Bertrand (2000), explains that capital investment in banking is more focused on efforts to stabilize the capital structure of regional banks. Furthermore, Bos and Kool (2004), provide an overview related to the development of the concept of efficiency strategy in the capital investment system in banking. Implementation is related to capital investment, often overriding efficiency, causing capital investment to function less well. Alkaraan and Northcott (2006), in a research entitled “Strategic capital investment decision-making: A role for emergent analysis tools? A study of practice in large UK manufacturing companies” contributes to how capital investment decisions are prepared based on the main strategy to increase the strengthening of the economic structure in the manufacturing sector. Hilary (2006), also provides an explanation that capital investment is the main strength in the banking capital structure.

3. RESEARCH METHOD

This study uses a qualitative method where to get the real picture by developing a process analysis using direct data sources. Bogdan and Biklen (2007), stated that qualitative research
has an actual setting as a direct data source and the researcher is the key instrument, qualitative research is descriptive, the data collected is in the form of words or pictures not numbers, qualitative researchers are more concerned with the process than just the results or products, and qualitative researchers tend to analyze their data inductively. Creswell (2009) states the research process involves questions and procedures that arise, data is usually collected in a participant setting, data analysis is constructed inductively from specific to general themes, and the researcher makes interpretations about the meaning of the data. The final written report has a flexible writing structure. Furthermore, Saldana (2011) states that qualitative research is a general term for various approaches and methods to study natural social life.

The information or data collected and analyzed is primarily (but not exclusively) non-quantitative, consisting of textual materials such as interview transcripts, field notes, and documents, and/or visual materials such as artifacts, photographs, video recordings and Internet sites, documenting experiences human beings about others and/or self in social action and reflexive states. Creswell (2009) states the research process involves questions and procedures that arise, data is usually collected in a participant setting, data analysis is constructed inductively from specific to general themes, and the researcher makes interpretations about the meaning of the data. The number of informants in this study were 27 people, consisting of 25 informants who were classified as Regional General Treasurers or Regional Financial Management Officers from the Provincial/Regency/City Governments of Bengkulu Province and Central Sulawesi Province, plus the President Director of PT Bengkulu Regional Development Bank and Deputy Commissioner of Shareholders of PT Bengkulu Regional Development Bank.

4. RESULTS AND DISCUSSION

4.1. The Findings
Based on the results of research on the competitive advantage of regional development banks in achieving the performance target of implementing local government equity participation in the category of commercial banks based on business activity 1 in Indonesia, it is concluded that the results of the study are as follows: (1) implementation of equity participation in terms of competitive advantage (low cost strategy), product differentiation strategy and focus strategy at PT Bank Pembangunan Daerah (the period of October 2020 is still in the category of Commercial Banks Based on Business Activities 1) are as follows, regulatory competitive advantage is seen from the substance of the low cost strategy of 25 (twenty five) general treasurers Regional Finance Management Officers, there are 20 (twenty) Regional General Treasurers stating that the implementation of competitive advantage seen from the substance of the low cost strategy is still not optimal (80% Informants), and 5 (five) regional general treasurers as Regional Financial Management Officers explained that currently there is no implementation of a low-cost strategy in the series of capital participation processes carried out by PT Bank Pembangunan Daerah, both in the Bengkulu Province working area and in the Central Sulawesi Regional Development Bank work area (20% Informants).

The results of the research related to competitive advantage analysis are seen from the substance of the product differentiation strategy of 25 (twenty five) regional general treasurers as Regional Financial Management Officers, there are 12 (twelve) Regional General Treasurers as PKPD stating that the implementation of competitive advantage is seen from the substance of the product differentiation strategy still not optimal, 48% of informants, and 13 (thirteen) Regional General Treasurers as Regional Financial Management Officers explained that currently there is no product differentiation strategy found in the series of capital participation processes carried out by PT Bank Pembangunan Daerah, either PT Regional Development Banks in the Bengkulu Province working area and PT Regional Development Banks in Central Sulawesi working areas (52% Informants).

The results of the research related to competitive advantage analysis seen from the substance of the focus strategy of the research results can be explained that of the 25 (twenty five) Regional General Treasurers as Regional Financial Management Officials who are used as research informants, 23 (twenty three) regional general treasurers stated that the implementation of competitive the advantage seen from the substance of the focus strategy is still not optimal (92% of informants), and 2 (two) Regional General Treasurers explained that currently there is no focus strategy at all in the series of capital participation processes carried out by PT Bank Pembangunan Daerah, either PT Bank Pembangunan Daerah in the working area of Bengkulu Province and PT Bank Pembangunan Daerah in the working area of Central Sulawesi (8% of Informants).

The best implementation model to build the integration of the provincial/district/city government capital participation system into PT Bank Pembangunan Daerah in an optimal and regulatory manner with operations: Phase 1, capital participation management is integrated with regional regulations on RPJMD, Restra SKPD documents, and RKPD documents. Phase 2, the management of equity participation is implemented in regional regulations concerning APBD, then realized and evaluated in the general meeting of shareholders and/or other coordination meetings. The Regional Regulation on Equity Participation is only for the legal basis for realization which is then strengthened by a regional head regulation as the basis for realization which ensures how much the value of capital participation is realized in actual conditions. The allocation of capital investment expenditure in this study found interesting phenomena, among others, there was an allocation of capital participation expenditure which was realized that was not the same as the total allocation of capital participation in the APBD of the year concerned.

In theory, the cost leadership strategy emphasizes efforts to produce standard products (same in all aspects) at a very low cost per unit. These products (goods/services) are usually aimed at consumers who are relatively easily affected by price shifts or use price as a decision-making factor (Porter, 1985). In general, in the working area of PT Bank Pembangunan Daerah Bengkulu, a low cost strategy in implementing equity participation has not
been found in official documents such as the annual report and the annual report on the implementation of governance which are officially presented by PT Bank Pembangunan Daerah Bengkulu. This condition is reinforced by the results of interviews with the Regional General Treasurer in Bengkulu Province, including the North Bengkulu Regency General Treasurer with the initials “F” which states that:

“.Bank Bengkulu only pursues the implementation of the Regional Regulations on the Capital Statement but has never informed what this product is like (capital participation), that’s why I say it’s only our obligation because as shareholders, the two are compelled because we already have local regulations. We enter the fund it is considered “turn off the money.” First, there are insignificant dividends to be used in development in the current year. Second, New dividends can be used next year. Actually, at this time there must be synchrony between the Regency/City APBD and the Province, because our APBD is evaluated by the Province. When we discuss the APBD for the coming year or the current year (when it changes), we think about how we can find a source of funds for equity participation.” (Source: Informant initials “F”).

Equity participation by PT Bank Pembangunan Daerah Bengkulu according to the Regional General Treasurer of the North Bengkulu Regency Government has not been seen as one of the products that must be widely marketed, with the substance of the offer that can explain competitive advantages if the local government invests capital participation in PT Bank Pembangunan Bengkulu area. This condition also occurs in the Bengkulu City Government, the information obtained through the Bengkulu City Government Regional General Treasurer with the initials “AG” is as follows:

“.BPD never informed that the dividend calculation was that much. Such as BPD profits of several trillions in 1 year, dividends distributed in so many, the allocation of half dividends for what has never been told. There is absolutely no standard explanation for capital participation products from the BPD, so that every time the general meeting of shareholders we feel that there are many things that cannot be explained, especially those related to the SCR, so that many of the Mayor’s needs are not the same as the BPD policies, this condition makes the relationship between the regional government and the BPD getting worse from year to year.” (Source: Informant initials “AG”).

The Regional General Treasurer of the Bengkulu City Government, did not find any implementation of the cost leadership strategy from PT Bank Pembangunan Daerah Bengkulu (during the period of capital participation in accordance with regional regulations). In theory, the company’s strategy to sell its products and services to consumers at lower prices compared to its competitors is an indicator of the implementation of a cost leadership strategy, in practice the management of capital participation has not yet detailed explanations and rules of the game so that the Regional Government Budget Team at the time of the APBD discussion deems it necessary that capital participation is not a product of regional needs that must be owned but an obligation that is burdensome to the region, because there are regional regulations that regulate the stages in the implementation of capital participation for 5 years.

The capital investment is then judged by the regional government to be increasingly unpopular when every year a large amount of budget must be realized and then it is considered a burden on the APBD. Dividends obtained from the total amount of equity participation are also considered insignificant for financing development in the current year and in n+1 years. The management of capital investment with a certain value for regions with low fiscal capacity, asks for a big commitment from the regional government so that they can actually realize the value of capital participation in PT Bank Pembangunan Daerah Bengkulu in accordance with the Regional Regulation on Equity Participation. The conditions referred to are in line with those described by the Regional General Treasurer as PPKD of the Mukomuko Regency Government with the initials “AS” as follows:

“.I think all regional heads in all provinces are committed to growing their own banks, but for implementation, on average, they are not too committed, but on average they are all willing to invest. The only problem is that we from Mukomuko are still a developing area that still focuses on building access roads. Dividends are also used because PAD is an absolute calculation but next year because dividends are not used in the current year. Mukomuko already has the latest 2020 regional regulation, if I’m not mistaken PM to Bank Bengkulu up to 20 M, if it’s forced like that it’s also not evenly distributed, ma’am, at the time of the general meeting of shareholders the Governor’s position to pursue it can also participate, this is different between districts/cities some are so far away. If the peg has to chase 1 T, it will be difficult because of the condition of each region’s ability. This strategy may not have been conveyed from the Governor’s side in the general meeting of shareholders, on the other hand, the technical details of capital participation have not been properly socialized to each local government, especially the superiority of the product which is then converted into local government share ownership in Bank Bengkulu, until now. This is when the transition to leadership changes in the regional government must be re-submitted, the product of capital participation from BB has the advantage where and what kind of benefits, and whether the product is superior from what side and so on, so that the DPRD and the new Regional Head do not propose a sudden withdrawal of the value. the capital investment that has been invested in BB.” (Source: Informant with initials “AS”).

Equity participation is implemented based on the Regional Regulation on Equity Participation. Efforts to introduce systems and mechanisms that are not good from PT Bank Pembangunan Daerah have caused the discussion of budget planning for capital participation in the APBD/Amendment to the APBD in a less priority position. The support from the Regional Government Team and the DPRD Budget Agency is also not maximal in the Regency/City in Bengkulu Province, and even tends to be willing to withdraw the total capital participation in PT Bank Pembangunan Daerah in the 1st year of leadership of the Regional Head and the 1st year of DPRD periodization.
In line with the context of the cost leadership strategy, the Regional General Treasurer of the Central Bengkulu Regency Government, the initials “WK” also conveyed the same problem related to the following substances:

“……Ignorance, incomprehension becomes indifference. If people don’t know, they don’t understand, they don’t care what the product is. I think that from the beginning, even if you don’t know, you are told, those who don’t understand, you don’t necessarily care, because before you equate perceptions, it’s not that easy, it’s similar to investment matters, it’s rather materialistic, the important thing is to make money, it’s stupid like that. Yes, so it’s nice to have a snack and find the money, the macro isn’t too high, they just need to show them the business plan can be rational, we can catch it in our brains, we can understand then put the money in. Yes, with impacts that are also leveraging factors, outside factors that influenced us, we think yesterday, of course, were not as smooth as we hoped, even though there were no results from the AGM. Because of that, the dividend had to be zeroed, right, the dividend was zero, because it was immediately included, I said it wasn’t like that, sir, so if they cut off immediately, it won’t be included in 2021. Equity participation is not given a detailed explanation, how much is the conversion of shares and the profit for the region from the dividend, when the dividend can be used, how much is the dividend and perhaps other advantages must be explained that can differentiate capital participation in BB from other commercial banks.” (Source: Informant initials “WK”).

Equity participation in Bengkulu Tengah Regency still requires further explanation, in connection with the priority of products that contain product superiority substances compared to products of equity participation in other banks other than regional banks. The dividend which was directly requested by PT Bank Pembangunan Daerah Bengkulu in 2019-2020 became the value of the capital participation in the year concerned, the objection was responded to by the Regional General Treasurer of the Central Bengkulu Regency Government because it was considered not in accordance with the procedures and not in accordance with the capital participation mechanism regulated in the Regency Regional Regulation. Bengkulu Tengah regarding Equity Participation. The cost leadership strategy is not found in the implementation of equity participation in the Central Bengkulu Regency Government.

5. DISCUSSION

The Implementation Model of Regional Government Equity Participation in Regional Development Banks.

In general, the best model of equity participation found in this study is the model of equity participation that is integrated with the development planning system and priority budgeting system. The priority program and activity planning system is contained in the Regional Regulation document concerning the Regional Medium-Term Development Plan which is then implemented in the form of a strategic plan document and a Regional Government Work Plan document which is prepared as a derivative of the regional regulation on the Regional Medium-Term Development Plan which is then used as a reference document. preparation of KUA-PPAS APBD of the year concerned. This model was mentioned by the informant as an ideal implementation model because it is measurable because it is included in a comprehensive local government planning and budgeting system. Regional regulations concerning capital participation by the Regional General Treasurer are explained in more detail with an emphasis on the availability of implementing regulations, not on regulations that position capital participation in the development priority scale of the mandatory affairs of regional investors. The current conditions that occur have not been fully integrated into the medium-term development planning system with the implementation mechanism of regional capital participation. This system must then be thoroughly improved so that it does not raise many questions related to the still less than optimal role of PT Bank Pembangunan Daerah in disseminating the competitive advantage model capital investment.
product with 3 (three) substances supporting the analysis study, namely cost leadership strategy, product differentiation strategy, and strategy focus. In general, when capital investment is included in the expenditure priorities in the planning document, the budgeting mechanism will run consistently with the medium-term planning document.

The equity participation paradigm that is connected to the planning system and budgeting system provides new inputs for improving the implementation system for local government equity participation to PT Bank Pembangunan Daerah in Indonesia. The model formulated with a more comprehensive approach is seen as capable of strengthening the performance system of regional equity participation to PT Bank Pembangunan Daerah. Capital participation expenditures in the priority scale of regional medium-term planning documents are more likely to ensure that the availability of the budget has been well planned within a period of 5 years. The equity investment model built by the researcher can be seen in Figure 1.

6. CONCLUSION

The results of regulatory research conclude that competitive advantage is seen from the substance of the low cost strategy of 25 Regional General Treasurers as Regional Financial Management Officers, there are 20 (twenty) Regional General Treasurers stating that the implementation of competitive advantage is seen from the substance of the low cost strategy. still not optimal (80% of informants), and 5 (five) Regional General Treasurers as Regional Financial Management Officers explained that currently (existing) there was no implementation of low-cost strategies in the series of processes for capital participation in the work area carried out by the parties. PT Bank Pembangunan Daerah Bengkulu and in the work area of PT Bank Pembangunan Daerah Sulawesi Tengah (20% of Informants). Regulatory competitive advantage is seen from the substance of the product differentiation strategy of 25 (twenty five) Regional General Treasurers as Regional Financial Management Officers, there are 12 (twelve) Regional General Treasurers stating that the implementation of competitive advantage seen from the substance of the product differentiation strategy is still not optimal (48% of Informants), and 13 (thirteen) Regional General Treasurers as Regional Financial Management Officials explained that currently (existing) there is no product differentiation strategy found in the series of capital participation processes carried out by PT Bank Pembangunan Daerah, either PT Regional Development Banks in the working area of Bengkulu Province and PT Regional Development Banks in the working area of Central Sulawesi Province (52% of Informants).

The results of the research that are specific are the best implementation models to build the integration of the provincial/district/city government capital participation system into PT Bank Pembangunan Daerah in an optimal and regulatory manner with operations, namely: phase 1, capital participation management is integrated with regional regulations on RPJMD, Restra documents SKPD, and RKPD Documents. Phase 2, the management of equity participation is implemented in regional regulations concerning APBD, then realized and evaluated in the general meeting of shareholders and/or other coordination meetings. The Regional Regulation on Equity Participation is only for the legal basis for realization which is then strengthened by a regional head regulation as the basis for realization which ensures how much the value of capital participation is realized in actual conditions. The allocation of capital investment expenditure in this study found interesting phenomena, among others, there was an allocation of capital participation expenditure which was realized that was not the same as the total allocation of capital participation in the APBD of the year concerned.

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Table 1: List of core capital 27 (twenty seven) regional development banks Indonesia’s position in December 2016-2020

| Bank name               | December 2016 (Rp) | December 2017 (Rp) | December 2018 (Rp) | December 2019 (Rp) | December 2020 (Rp) |
|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Bank BJB               | 8,472,436          | 9,285,563          | 9,526,181          | 9,816,501          | 9,911,099          |
| Bank Jatim             | 6,580,009          | 6,928,285          | 7,436,484          | 7,822,122          | 7,920,211          |
| Bank DKI               | 6,588,842          | 7,510,678          | 7,804,025          | 7,781,209          | 8,490,366          |
| Bank Jateng            | 4,877,919          | 5,838,985          | 5,742,585          | 6,579,583          | 7,042,473          |
| Bank Kaltim            | 4,508,235          | 4,308,235          | 3,600,062          | 3,667,335          | 3,723,692          |
| Bank Sumut             | 2,649,068          | 2,863,989          | 3,080,335          | 3,361,568          | 3,321,658          |
| Bank BPD Bali          | 2,484,771          | 2,508,280          | 2,747,157          | 3,339,874          | 3,074,684          |
| Bank Sumsel Babel      | 2,088,772          | 2,633,444          | 3,037,230          | 3,288,226          | 3,492,864          |
| Bank Papua             | 2,278,945          | 2,197,544          | 2,903,195          | 3,193,497          | 3,249,960          |
| Bank Sulselbar         | 1,846,928          | 2,359,355          | 2,841,630          | 3,085,350          | 3,338,516          |
| Bank Nagari            | 2,155,744          | 2,367,047          | 2,681,446          | 2,978,311          | 2,920,186          |
| Bank Riakepri          | 2,064,248          | 2,691,816          | 2,732,280          | 2,757,428          | 2,872,272          |
| Bank Kalbar            | 1,740,445          | 2,035,703          | 2,407,936          | 2,503,342          | 2,695,285          |
| Bank BPD DIY           | 1,362,185          | 1,420,564          | 1,523,665          | 2,143,615          | 2,237,542          |
| Bank Aceh Syariah      | 1,844,087          | 2,016,021          | 1,829,861          | 2,001,848          | 1,981,935          |
| Bank Kalsel            | 1,606,123          | 1,564,136          | 1,749,516          | 1,856,053          | 1,843,068          |
| Bank NTT               | 1,516,051          | 1,562,145          | 1,669,849          | 1,767,091          | 1,752,421          |
| Bank Kalteng           | 956,330            | 1,343,367          | 1,439,761          | 1,471,027          | 1,492,119          |
| Bank SultungGO         | 1,132,295          | 1,334,806          | 1,413,512          | 1,425,893          | 1,275,704          |
| Bank Jambi             | 946,254            | 1,178,589          | 1,288,481          | 1,402,011          | 1,491,528          |
| Bank NTB               | 1,229,720          | 1,272,085          | 1,327,531          | 1,388,361          | 1,344,111          |
| BPD Sultra             | 680,160            | 826,111            | 971,863            | 1,130,634          | 1,311,274          |
| Bank Maluku Malut      | 614,485            | 792,941            | 956,035            | 1,096,067          | 1,155,035          |
| Bank Sulteng           | 539,267            | 608,522            | 743,408            | 930,079            | 956,599            |
| Bank Bengkulu          | 512,027            | 597,207            | 650,839            | 713,874            | 853,116            |
| Bank Lampung           | 564,313            | 618,605            | 661,936            | 697,368            | 1,042,806          |
| Bank Banten            | -                  | 459,405            | 334,072            | 154,139            | 1,561,982          |
| Jumlah                 | 61,839,659         | 69,303,428         | 73,109,875         | 78,352,406         | 82,352,506         |

Source: ASBANDA and OJK Publication Report, OJK Website (www.ojk.go.id) Download date: December 30, 2020