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The Role of Construction BUMN Subsidiaries in Indonesia on the Performance of Parent Companies: in a Perspective and Concept

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Abstract: This article will analyze how the formation and operation of subsidiaries affect the operational, financial, and strategic performance of construction SOE holding companies in Indonesia. This article uses a qualitative method with a literature review and a perspective used in by the researcher according to the available data sources to support this article. Analysis of findings and existing data from construction companies in Indonesia. The structure of the parent company and subsidiaries allows for flexible and integrated business management, reduces internal conflicts, and improves efficiency. Subsidiaries help the parent company expand markets, manage risks, and create synergies. The application of transaction cost theory shows that establishing a subsidiary can reduce transaction costs and improve operational control. Portfolio management and synergies between subsidiaries are also important to improve efficiency and competitiveness. Corporate diversification and good oversight mechanisms ensure alignment between the goals of the subsidiary and the parent company's strategy.

Keyword: Company, Construction

INTRODUCTION

Indonesia, as a developing country with the fourth largest population in the world, has continued to experience significant economic growth in recent decades. One of the sectors that plays an important role in national development is the construction industry. This sector not only contributes to the development of physical infrastructure, but also plays a role in creating jobs and driving overall economic growth (I. K. Mochtar, 2022). State-Owned Enterprises (SOEs) in the construction sector play a very strategic role. Construction SOEs, with their experience and capacity, have become the spearhead in the implementation of large-scale infrastructure projects in Indonesia (M. N. U. R. AZIZAH, 2023). The phenomenon of the formation of subsidiaries by construction SOEs has become an increasingly common trend in Indonesia in recent years. This move is seen as a strategy to improve specialization, operational flexibility, and management efficiency. However, the impact of this strategy on the performance of the parent company is still an interesting topic to be studied further (K. BUMN, 2017).

In the past, construction SOEs tended to operate as a single entity that handled various aspects of construction projects. This condition often results in inefficiency and lack of focus on specific areas that require special expertise (A. Mannino, M. C. Dejaco, and F. Re Cecconi, 2021). Currently, with subsidiaries, construction SOEs can delegate certain tasks to more specialized entities, so that it is expected to improve the quality and efficiency of project implementation (M. C. Siahay et al.2023). However, this phenomenon also raises several new problems and challenges. One of them is the potential for overlapping functions between the parent company and its subsidiaries, which can cause internal conflicts and inefficiencies (D. L. ZR and T. Watanabe, 2012). In addition, there are also concerns about the possibility of shifting financial expenses from the parent company to the subsidiary, which in turn can affect the overall financial performance of SOEs (A. Ansar, B. Flyvbjerg, A. Budzier, and D. Lunn, 2016).

Given the importance of the role of construction SOEs in national development and the complexity of the relationship between the parent company and its subsidiaries, it is important to examine more deeply the "Role of Construction SOE Subsidiaries in Indonesia on the Performance of the Parent Company. This paper will analyze how the formation and operation of subsidiaries affect the operational, financial, and strategic performance of construction SOE holding companies in Indonesia (R. Osei-Kyei and A. P. C. Chan, 2017). This article will analyze how the formation and operation of subsidiaries affect the operational, financial, and strategic performance of construction SOE holding companies in Indonesia.

Company Theory

Enterprise Theory is a conceptual framework used in economics to analyze the behavior of firms, how they make decisions, and how they interact with the market. This theory explores several important aspects of companies, such as the company's goals (usually to maximize profits), cost and revenue structures, and how companies respond to market incentives and government policies (R. S. Pindyck, 2013). Enterprise Theory can also be defined as the study of how companies set goals, make decisions, and interact with the market in the context of various constraints such as technology, information, and regulation. This theory seeks to explain why companies exist, how they develop, and what determines their size and internal structure (J. B. Barney, 2000). In the context of construction SOEs, this theory can explain how the parent company and its subsidiaries interact to achieve a common goal. The Company's Theory with PT Wijaya Karya (WIKA), concepts such as company objectives, transaction costs, principal-agent relationships, internal resources, and decision-making in uncertainty provide a foundation for understanding how WIKA operates and interacts with the market and government. As a state-owned enterprise, WIKA has a strategic role in the development of national infrastructure, while at the same time having to comply with the principles of economic efficiency explained in this theory.

METHOD

This article uses a qualitative method with a literature review and a perspective used in by the researcher according to the available data sources to support this article. Analysis of findings and existing data from construction companies in Indonesia.

RESULTS AND DISCUSSION

From the problems that exist in the description in the introduction, among others, there is an overlap of functions between the parent company and the subsidiary, which can cause internal conflicts and inefficiencies. In addition, there are also concerns about the possibility of transferring financial expenses from the parent company to the subsidiary, which in turn can affect the overall financial performance of SOEs, so in this discussion it will be described based on the grand theory and the perspective of the researcher. Challenges of parent companies and subsidiaries

From the existing problems regarding the overlap of functions between the parent company and the subsidiary, which can cause internal conflicts and inefficiencies, the parent company is an entity that has control over one or more subsidiaries. In this context, Enterprise Theory helps explain why companies choose to establish subsidiaries as part of their business strategy. Holding companies often use subsidiaries to expand market reach, manage risk, and leverage synergies among various business units. This structure allows companies to maintain flexibility in managing different businesses, but still under centralized strategic control.

The structure of a parent company and a subsidiary is a form of organization that is often used by large companies to manage a variety of different business operations within a single group. In this structure, the holding company holds strategic control over the subsidiaries operating in a particular sector or industry. Subsidiaries typically have operational autonomy, but are still subject to the supervision and direction of the parent company. The advantages of this structure are flexibility and diversification. The holding company can enter a new market or manage a different line of business without taking too big a direct risk on the main company. For example, an energy holding company could have a subsidiary engaged in renewable energy, which allows the company to innovate and explore new technologies while maintaining key operations in the traditional sector. Subsidiaries also allow the parent company to differentiate their brands, products, or services across different markets. By having subsidiaries that focus on specific segments or products, the parent company can optimize its marketing and operation strategies according to different market needs, without disrupting the overall image or strategy of the parent company.

For example, a holding company in the energy sector may have several subsidiaries that each focus on a different subsector, such as renewable energy, oil and gas, or electricity distribution. Each subsidiary can develop specific specializations and expertise, while the parent company centralizes larger strategic decisions. The establishment of a subsidiary can be seen as a way for the parent company to reduce transaction costs arising from working with external entities. For example, if the parent company relies on external vendors or providers for critical components or services, high transaction costs, such as contracting, oversight, and coordination costs, can be mitigated by establishing a subsidiary that handles those functions internally. Thus, the parent company not only controls costs, but also improves operational efficiency through vertical integration.

In Corporate Theory, specifically the Transaction Cost approach, the structure of the parent company and its subsidiaries is seen as a way to reduce transaction costs that may occur when a company conducts activities through the market. According to this theory, a company will internalize a particular activity if the transaction costs in the market are higher than the costs of carrying out those activities internally. For example, if the holding company often faces high transaction fees in the form of complex contracts, uncertainty of quality, or supervision costs when working with third parties, they may choose to set up a subsidiary that carries out such activities. In this way, the parent company can reduce transaction costs and improve operational efficiency through more direct control over resources and processes. This approach also explains why companies tend to integrate vertically, where they take over the various stages of production and distribution that are usually carried out by outsiders. In this context, a holding company that has subsidiaries engaged in various parts of the supply chain can avoid high transaction costs and ensure better coordination between different business units.

The discussion is related to strategic management where Business Portfolio Management is the key to success for the parent company and its subsidiaries. Approaches such as the BCG Matrix (Boston Consulting Group) can be used by holding companies to assess the performance of subsidiaries based on market share and growth rates. Through this analysis, the parent company can determine a different strategy for each subsidiary—for example, whether they will invest further, maintain the status quo, or even divest a subsidiary that is no longer in line with long-term strategic goals. Business portfolio management involves the process of evaluating and organizing business units or subsidiaries to ensure that they support the parent company's overall objectives, both in terms of growth, profitability, and competitiveness.

In addition to the BCG Matrix, other approaches such as the Ansoff Matrix and Porter's Generic Strategies are also used to determine the most appropriate strategy for each business unit or subsidiary in the portfolio. The Ansoff Matrix assists the parent company in identifying growth strategies through various options such as market penetration, product development, market expansion, or diversification. This is especially useful when the parent company wants to drive the growth of its subsidiaries in existing markets or expand into new markets. Porter's Generic Strategies offers a framework for determining whether a subsidiary should focus on cost leadership, differentiation, or market focus. For example, a parent company might encourage one of its subsidiaries to compete on a low-cost basis in a competitive industry, while another subsidiary might be geared toward innovating and offering unique products in a premium market.

One of the important aspects of business portfolio management is creating synergies between different subsidiaries. Synergies can be in the form of increased efficiency, cost reduction, or the creation of more value through collaboration between business units. For example, subsidiaries engaged in research and development can share technological innovations with business units engaged in production, thereby improving product efficiency and quality. Synergies can also occur in terms of marketing and distribution. The parent company may integrate marketing strategies between subsidiaries to create a consistent brand image across markets or leverage the same distribution network to reduce operational costs. With effective management of the business portfolio, the parent company can ensure that each subsidiary makes a positive contribution to the overall performance of the group. This integrated and synergistic strategy enables the parent company to achieve sustainable competitive advantage across a wide range of industries.

Corporate diversification strategies are also relevant here. Holding companies often diversify their operations by having subsidiaries in different industries or markets to reduce the risks associated with relying on a single line of business. It is also related to Resource-Based View (RBV), where the parent company uses its unique resources and capabilities to support the success of the subsidiary. The parent company as the principal wants the subsidiary as an agent to act in accordance with the overall strategy that has been set. However, conflicts can arise if the management of subsidiaries has different goals or focuses on their own local interests. To address these issues, the parent company often implements strict oversight mechanisms, such as internal audits, clear performance targets, and a results-based incentive system to ensure that the management of the subsidiary remains aligned with the strategic vision of the parent company.

Strategic management in the parent company also strives to create synergies between its subsidiaries. This synergy can be in the form of operational efficiency, technology and innovation sharing, and increased competitiveness through collaboration between business units. Strategic management theory states that such synergies can increase the overall value of a company, where the total value of the parent company and its subsidiaries is greater than the sum of the value of each entity if they operate separately. For example, in the manufacturing sector, a parent company might encourage its subsidiaries to share advanced manufacturing technologies, which can improve efficiency and reduce costs across the group of companies.

Strategy Implementation

Strategy implementation becomes more complex because it involves coordination and synchronization between different business units that may have different focuses or priorities.

The parent company plays the role of the main strategic direction determiner, while the subsidiary is responsible for implementation at the operational level. Good coordination between these two entities is essential to ensure that each subsidiary follows the vision and mission that has been set by the parent company. The strategy formulated at the parent company level must be translated into a clear operational plan for the subsidiary. This can include guidance for market expansion, product innovation, cost management, or human resource development. The parent company must also establish Key Performance Indicators (KPIs) that will be used to monitor the progress of the subsidiary in achieving strategic goals.

One of the challenges in the implementation of the strategy is resource management. The parent company needs to allocate resources, such as capital, technology, and labor, efficiently among the subsidiaries. This process should consider the growth potential and needs of each subsidiary. For example, if the parent company plans to expand into new markets through one of its subsidiaries, then larger investments may be required to support such expansion. The parent company must ensure that the allocation of budget and other resources is in line with strategic priorities. Strategy implementation also involves the development of an incentive system that encourages performance that is in line with the company's strategic objectives. This incentive system can be in the form of bonuses, shares, or other awards given to the management and employees of subsidiaries who succeed in achieving predetermined targets. In addition, the parent company needs to implement an effective monitoring mechanism to ensure that the implementation of the strategy goes according to plan. This includes internal audits, periodic performance reviews, and a transparent reporting system. Good supervision allows the parent company to identify problems early and make strategic adjustments if necessary.

Strategy implementation requires flexibility to adapt to changing market conditions, technology, and regulations. The parent company must be ready to adjust its strategy if the subsidiary faces unexpected challenges or opportunities. For example, a change in government regulations may affect the operation of one of its subsidiaries in a particular sector. In this case, the parent company must be able to adjust its strategy and provide the necessary support to keep the subsidiary competitive and comply with applicable regulations. Strategy implementation should also include internal capability development and innovation. The parent company must support the subsidiary in developing the competencies necessary to execute the strategy successfully. This could include training, technology development, or improving operational processes. In addition, the holding company must foster a culture of innovation throughout the group of companies. Innovation can be an important differentiating factor in maintaining a competitive advantage. The parent company must create an environment that encourages subsidiaries to continue to innovate, both in products, services, and business models.

Strategy implementation is inseparable from risks, both operational and financial risks, as well as external risks such as economic and market changes. The parent company must have a robust risk management system in place to identify, analyze, and manage risks that arise during the implementation of the strategy, if one of the subsidiaries experiences financial difficulties, the parent company needs to take quick steps to address the issue, such as restructuring, asset sales, or mergers with other business units.

Concept for Advanced Indonesia

Indonesia is in the stage of accelerating infrastructure development as part of the national development plan. Construction SOEs, such as PT Waskita Karya, PT Wijaya Karya, and PT Adhi Karya, play an important role in major national projects. However, to improve efficiency and expansion, these SOEs formed subsidiaries that handle various specific aspects, such as property, energy, and infrastructure management. In Indonesia, the importance of the role of these subsidiaries is not only seen from the perspective of financial contribution, but also how they support the national development agenda, strengthen the competitiveness of the parent company, and assist the government in achieving infrastructure targets. Strengthen collaboration between the parent company and its subsidiaries, as well as between the subsidiaries themselves. This can be done by forming a communication forum or collaboration center that allows various entities to share knowledge, resources, and projects. Identify strategic projects that can be integrated between the parent company and its subsidiaries. For example, a parent company can focus on large infrastructure projects, while subsidiaries support in terms of technology, project management, or material supply. Form a management team that specifically oversees the subsidiary, ensuring that every decision taken by the subsidiary is aligned with the vision and mission of the parent company. This team must be able to bridge strategic and operational needs between the parent and subsidiaries.

If corporate governance is properly implemented, including transparency, accountability, and efficiency in the management of subsidiaries. This could include implementing a strict monitoring system and periodic audits to ensure that the subsidiary is running in accordance with the standards set by the parent company.

CONCLUSION

The structure of the parent company and subsidiaries allows for flexible and integrated business management, reduces internal conflicts, and improves efficiency. Subsidiaries help the parent company expand markets, manage risks, and create synergies. The application of transaction cost theory shows that establishing a subsidiary can reduce transaction costs and improve operational control. Portfolio management and synergies between subsidiaries are also important to improve efficiency and competitiveness. Corporate diversification and good oversight mechanisms ensure alignment between the goals of the subsidiary and the parent company's strategy.

Recommendation, Optimize Synergy Between Subsidiaries, the parent company must actively seek and create opportunities for synergy between subsidiaries. This includes sharing technology, innovation, and marketing strategies to improve efficiency and reduce costs, Implement Effective Oversight and Incentives, To address potential conflicts between the management objectives of the subsidiary and the parent's strategy, it is important to implement a rigorous oversight mechanism as well as a results-based incentive system that aligns with the parent's strategic vision, Evaluate the Portfolio Periodically, Use analytical tools such as the BCG Matrix and Ansoff Matrix to assess the performance and potential of subsidiaries on a regular basis.

It will help in determining an appropriate investment, development, or divestment strategy, Strategic Diversification, consider industry and market diversification as a strategy to mitigate risk. Evaluate unique resources and capabilities to support the success of subsidiaries in various sectors, Focus on Reducing Transaction Costs, analyze transaction costs in interactions with third parties and consider internalizing activities that can reduce costs and improve operational control and efficiency. Develop a Data-Driven Managerial Strategy, Leverage data and analytics to understand market needs and subsidiary performance. This will allow for more informed decisions and strategies that are more responsive to market changes.

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