**LEADERSHIP AND THE ACHIEVEMENT OF GOALS IN LOCAL GOVERNMENT INSTITUTION:**

**A CASE OF BKPPMD**

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**Abstract**

Artikel ini membahas tentang peran penting pemimpin di organisasi pemerintah daerah dalam mewujudkan tujuan organisasi, yaitu kesejahteraan pegawai, pemberian pelayanan publik dan pembangunan daerah pada awal era otonomi daerah di Indonesia. Artikel ini menemukan adanya otonomi yang cukup besar bagi pemimpin organisasi pemerintah yang cenderung terpola dan sentralistik dalam meningkatkan kesejahteraan pegawainya dan memberikan pelayanan publik. Artikel ini juga mengungkapkan bahwa ketika BKPPMD tidak dapat menyediakan pelayanan ijin investasi secara efektif dan efisien karena kompleksnya prosedur investasi di daerah, inisiatif yang diambil pemimpin organisasi menempatkan organisasi pada posisi penting dalam meningkatkan pertumbuhan investasi daerah.

Keywords: *Leadership; Public Sector Organisation.*

**INTRODUCTION**

Indonesia’s decentralisation made by Law 22/1999 (and now Law 32/2004) has various impacts, either positive or negative, to the public services, the leadership is vital for driving change at the local level. Decentralisation moves the government closer to the people since it brings public sector activities and decision in line with popular preferences (Green, 2004, p. 129). Previously, GoI did top down approach, but this did not take into account the local differences which are vital for development. Consequently, these activities involve civil service to manage them and their performance. Even though, in practice, it rarely enters the decision calculus of decentralisation design, the civil service, argued Green (2004), is an essential component of government to successful decentralisation. Decentralisation can impact on public service, but the role of leaders is what makes this possible.

As “leaders make connections between people and between the present and the future” (Kausez and Posner, 2002. p. 390), this article specifically will explore a significant role of the leadership in the Coordinating Board for Promotion and Local Investment (BKPPMD) of the West Sumatera Province at the beginning of decentralisation era in other to achieve organisation’s goals (employees’ welfare, service delivery, and local development), as the follow-up of the regional policy, by making connections with employees and service users as well as with top bureaucrats (their superiors from regional government), as illustrated in figure 1.

**Figure 1: Triangle Connection of Public Sector Leadership**



### In making connections with these people (top bureaucrats, employees and service users), the leaders play key roles in using their influences to improve service delivery, promote employee’s welfare and enhance local development. All three groups of people are very important for successful leadership in public sector such as local government organisations. First, organisations are established because of the demand from their customers or service users. They are a central focus for the successful organisations (Blanchard and Bowles, 1993) and the lifeblood of all organisations (Walker, 1990). Indeed, someone cannot be a leader without the existence of followers, leader needs followers (Owen, 2005, p xiv). Smith (1986, p.22) cited from his anonymous friend that “….all it takes to be a leader is to have somebody follow you.” “Leadership is a relationship between those who aspire to lead and those who choose to follow”, added Kouzes and Posner (2002, p.20). Obviously, “[t]o be a leader, a person has ….. people intentionally coming behind him, following his lead, and acting on his vision” (Maxwell, 1998, p.16). Finally, the leader of local government organisations is subordinate of the regional head. He/she needs to obey his/her superior’s direction and policy to develop the region. Noticeably, by playing their key roles, these leaders will make differences and will lead to change at the local level.

# Leadership and Its Importance in the Organisation

“Leadership is a key issue in the development of groups, organisations and nations” (Baruch, 1998, p.1). Burns (1978, p.2) argued that “leadership is one of the most observed and least understood phenomena on earth.” Moreover, leadership involves a reordering or organizing of a new way of acting, as well as the need to overcome resistance to change (Bass, 1960).

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Table 1: Some Definitions of Leadership

|  |  |
| --- | --- |
| **Authors** | **Leadership Definitions** |
| Bass  (1960, p. 89) | “When the goal of one member, A, is that of changing another member, B; or when B’s change in behavior will reward A or reinforce A’s behavior, A’s effort to obtain the goal is leadership.” |
| Burns  (1978, p.19) | “Leadership as leaders inducing followers to act for certain goals that represent the values and the motivations - the wants and needs, the aspirations and expectations - of both leaders and followers.” |
| Clawson  (1990, p.3) | “Leadership is the result of a situation in which people have worked together voluntarily with energy voluntarily to accomplish some purpose.” |
| Hogg  (2001, p.194) | “Leadership is a process of influence that enlists and mobilizes the involvement of others in the attainment of collective goals; it is not a coercive process in which power is exercised over others.” |

Different definitions of leadership have been reviewed by many researchers and scholars. Nevertheless, there are sufficient similarities between definitions in order to understand the meaning of leadership. Table 1 provides a sample of leadership definitions. Four elements, i.e. the leader, the follower, the process of influence, and goal are common in the leading process. They are very important as parts of leadership and are related one to each other. Without one of them, leadership will be less meaningful. Kanungo (1998) pointed out the leader, the followers and the situational context as three basic elements of leadership and leaders exist because of the existence of followers. While, Stogdill (1969) stated that the minimal social conditions for the existence of leadership are a group (of two or more persons), a common task (or goal oriented activities), and differentiation of responsibility. Then, “leaders may be differentiated from other members in terms of the extent to which they influence the activities of the organisation in its efforts toward the achievement of goals” (Stogdill, 1969, p.43).

However, measuring leadership in terms of the influence exerted by individuals may contradict to the statement of leadership as an aspect of organisation instead of an attribute of individuals (Stogdill, 1969). All members in the organisation are expected to exert their influence in various dimensions. One member exerts more influence in some situation while other members influence the activities of organisation in other instance. Therefore, the person in the position as the head of organisation may or may not exert influence (Cooper and McGaugh, 1969), and power from this position does not make him/her become a leader although it gives the authority to accomplish certain tasks and objectives in the organisation (Clark 1997).

For this reason, leadership is here defined in term of influence upon the activities of the organisation. People who are entitled as the leaders in the organisation then are members of the organisation who have more influence in determining organisation activities.

Thus, leadership is essential for most people in organisations because the leaders can influence people to do what they expect to achieve organisational goals. At this point, General Dwight Eisenhower (undated cited in Popper & Zakkai, 1994, p.3) said that “the essence of leadership is to make people do what you want them to with as much will, determination and enthusiasm as if they had decided for themselves.” For that reason, their roles in organisation are of course very crucial indeed. Wart (2003) proposed that the importance of leadership in organisations is to provide higher-quality and more efficient goods and services, to provide a sense of cohesiveness, personal development, and higher levels of satisfaction among those conducting the work, and to provide an overarching sense of direction and vision, an alignment with the environment, related one to each other. Without one of them, leadership will be less meaningful. Kanungo (1998) pointed out the leader, the followers and the situational context as three basic elements of leadership and leaders exist because of the existence of followers. While, Stogdill (1969) stated that the minimal social conditions for the existence of leadership are a group (of two or more persons), a common task (or goal oriented activities), and differentiation of responsibility. Then, “leaders may be differentiated from other members in terms of the extent to which they influence the activities of the organisation in its efforts toward the achievement of goals” (Stogdill, 1969, p.43).

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**Brief History and Roles of BKPPMD**

BKPPMD, firstly called Coordinating Board for Local Investment (BKPMD), was founded in 1981 as the implementation of presidential decree 26/1980 on the establishment of BKPMD. This decree instructed all provincial governments all over Indonesia to create BKPMDs as the long hand of National Investment Coordinating Board (BKPM) in their regions. These Institution*s* had limited authority only for issuing investment permits to domestic investors having investment at lower than 10 billion rupiah. Article 11 of Law 22/1999 afterward gave the local government a wide authority to manage investment in their regions. As the response to this law and the presidential decree 116/1998 and then 122/1999 on the amendment of presidential decree 26/1980, the provincial government of West Sumatera issued the local government regulation (*Perda)* 6/2001 and the governor decree 3/2001. These provincial regulations then established BKPPMD. In the autonomy era, BKPPMD has a wide authority to manage investment affairs for both domestic and foreign investors. It performs promotion activities as well as investment permits for its region.

However, the change was not easy to handle and some problems took a place in the process of issuing investment permits and dealing with those investors. The Head of BKPPMD, explained why his Institution was hard to obey these tasks. There were two main problems. Because of low quality of human resource in the region, civil servants’ skills in BKPPMD still needed a further improvement in order to perform any tasks dealing with investment, and BKPPMD had to have a high coordination with vertical institutions or central government bodies, such as custom agency (for tax holiday), immigration office (for foreign workers), and National Land Authority/BPN (for land certificate), before issuing the permits. The process would take a longer time especially if the approvals could not be handled by the regional offices and need to be processed in the main offices in Jakarta.

As the solution of these problems, the central government finally issued the presidential decree 29/2004 on the execution of foreign and domestic investment through one roof service system[[2]](#footnote-3). The government drew back the authority of investment to BKPM. The reason behind this decree is that the local investment board, as an organisation, became less efficient since investors often face a complicated bureaucracy, the high cost of investment, and longer time of investment permit process. Institution for Economy Investigation and Community (LPEM) of the University of Indonesia in 2001 found that the problems faced by business people dealing with local governments for investment are bureaucratic problems, uncertainty of investment costs to be spent, and radical changes of Perdas (Nurridzki, 2004). So, obviously, this Presidential Decree cuts off the bureaucratic line for investment permits in the region. Again, the domestic and foreign investors can save their time and money in doing investment at the region. However, this article only discusses the condition of BKPPMD before this decree is implemented.

**RESEARCH METHOD AND DATA COLLECTION**

The data described in this article were mainly drawn from the results of both interviews and document analysis during the visits for research purpose to BKPPMD in 2004. Heads and staff of the organisations were asked to respond to items related to the leadership behaviours in the institutions. Additional data and information were then collected from organisation records and various sources.

Thus, the sources of data and information for this study were collected and validated by employing a triangulation approach. Triangulation, according to Greene, Jennifer, Caracelli, Valerie, Graham & Wendy (1989) is a method to test the consistency of findings obtained through different instruments. This study combined two main research methodologies in studying the same phenomenon i.e., the use of open questions interview and content analysis. Triangulation was used in this case study to provide chances to assess some of the threats or multiple causes influencing the findings. It also could overcome the potential bias and sterility of a single-method approach. As Stanwick (1999) argued that the multiple methods of research applied will provide some convergence of the data and add richness to the overall analysis of the data. However, the use of more than one method to measure research variables may result agreeing or conflicting findings (Leavitt, 2001). The problem of conflicting results, Leavitt (2001) suggested, should be resolved and the search for reasons may promote deeper understanding of phenomenon in the question.

In-depth interviews with open questions would give data for this study in a qualitative form. 16 Questions in the interview sheet were basically developed to assess the organizational leadership. Questions in the interview were divided into two sections. Section A with 7 questions asks about the working history of respondents as well as their organisation’s history in general. In section B, participants were asked with 9 questions on the topic of various aspects of current leadership in the organisation. From these interviews, relevant information could be directly gathered from the research participants regarding their perceptions of leadership in the organisations.

Individual interviews with 4 heads (echelon 2 & 3) and 10 staff (echelon 4 & non echelons) of BKPPMD were conducted during working hours in each respondent’s office or a private room over a visit period to their organisations. Each interview was between half an hour and one hour in duration. Respondents were individually interviewed and separated from other heads or staff to ensure the objectivity of their answers and to minimize the possible bias. The snowball sampling method then was employed to reach respondents to be interviewed. The people who had been interviewed at the first time would directly introduce the interviewer to the next participants or they might provide a memo for their nominees as the next participants.

**RESULTS AND DISCUSSION**

This section will address how the leadership in BKPPMD has an effect on employees’ welfare, service delivery and local development based on the core issue that meanwhile local government can not provide an effective and efficient procedure of investment permits, planning and promoting local potency to the prospective investors from both other regions and other countries are the essential points to develop local investment in the region. The organisation’s leaders definitely play their role to make it happens.

**Employees’ Welfare**

Although Indonesia’s civil service is centrally regulated (primarily based on the Law 43/1999 on Amendment of Law 8/1974 on The Ordinance of The Civil Service), it does not imply that the Heads of governmental organisations have no more chance to improve the welfare of civil servants in their organisations. They still can play their roles to improve their staff’s welfare by working around the law.

For the welfare of civil service, the Head of BKPPMD not only paid his attention to the rights of his civil servants as regulated by the articles 7, 8, 9 & 10 of Law 43.1999 but he also concerned more to the staff development. He applied it by putting the article 31 of Law 43/1999 on education and training into practice since the improved education and skills of the staff would be beneficial for both staff itself and their organisation.

From interviews to some staff, 50% of respondents mentioned about the way of the Institution’s management to motivate them by giving them the opportunities for joining in trainings, short courses and apprenticeship in order to improve their ability. 4 staff in 2002 for instance had been assigned to attend the apprenticeship in BKPM and the other 4 staff studied about the local regulations related to local investment (BKPPMD, 2003). In that year, the board also had allocated its budget in the education item for 18 staff with total amount of 10,600,000 rps (BKPPMD, 2003). Some staff also had chances to continue their further education. In 2002, it is noted that 2 staff had completed their master degree and 1 staff had completed her bachelor degree, meanwhile one more staff was graduated from her master degree in 2003 (BKPPMD, 2004b).

The Head also involved more staff in non-routine activities (commonly called projects) which gave them incentives from these projects as an additional income. By understanding employees’ characteristics in advance, the leader will easily influence them. In this case such rewards are very important to encourage the staff to complete their tasks. Civil servants in BKPPMD, as identified by its Head, have two main characteristics. First, they are project-oriented workers. They will be highly motivated to work if they get involved in the projects. Their involvement in these projects can give them additional income. Secondly, they are apathetic or lack of concern about their work and they often avoid it. In line with this opinion, respondents A53 & A59 noted that *“the personnel in this agency are less motivated. If there is enough money, activities can be performed by procedure.”* Being motivated with money is also applied not only for staff but also for management of the board. As, the respondent A59 then gave an example as follows:

“*if there was a training for the management situated in this region and having no transportation allowance, then staff would be assigned to attend such a training. However, if there was a training situated in other region with transportation allowance, the management would go alone without the staff.”*

Various additional incomes like incentives, overtime and traveling allowances can be legally paid to the employees by the treasurer of this Institution*.* This Institution in 2002 had paid incentives to 4 staff and overtime allowances to 9 staff at the total amount of 9,260.000 rps in the year, and paid traveling allowances for 27 staff with the total amount of 89,275,000 rps (BKPPMD, 2003).

As the right of civil servants, BKPPMD in 2002 had paid 700,944,840 rps per annum or 58,412,070 rps per month to 49 staff as their salaries and rice allowances. In average, each civil servant in this Institution accepted the salary plus rice allowance at 14,304,996.73 rps per annum or 1,192,083.06 rps per month. As their right, staff also got their working uniforms.

In terms of employees’ welfare, respondents A52 & A58 in interviews declared there was no problem with the welfare and the Head motivated them by improving it. The welfare of civil service in this board seems greatly better than the workers’ welfare from manufacturing, business and agricultural sectors in this province in terms of the monthly earnings. In 2001, people who work in manufacturing sector earned the lowest minimum wage at 385,000 rps/month meanwhile those in business and agricultural sector got the highest minimum wages at 395,000 rps (BKPM, 2004). By using the radical assumption of the 200% adjustment for year 2002, the rise of minimum wages for these sectors is still lower than the government earning at the time. This result supports the previous finding from Filmer & Lindauer (2001). By analyzing data from Indonesia’s Labor Force (Sakernas) Survey

in 1998, they found the monthly government earnings by education on average (414,000 rps) exceeded non-government average (274,000 rps). Such a condition took a place by comparing more education-intensive governmental sector to private sector having less educated workers. However, private sector paid higher compensation than government did for more educated workers.

**Service Delivery**

*“This Organisation is an organisation that carries out planning, promotion, and provides permits for local investment. So, this organisation needs to develop a very wide network not only with the existing internal organisations within West Sumatera Province but also with investors or prospective investors from domestic or overseas who want to have a facility in terms of custom duties, the use of foreign workers and land.”* (Head of BKPPMD for a 1999-2004 period)

*“Planning and Promotion activities are the activities that consume much time. It happens because BKPPMD changes its focus from only handling investment permits to highly focus on planning and promotional activities. At the moment the promotional activity has an important role in the institutions of local government.”* (Head of BKPPMD for a 1999-2004 period)

The statements of BKPPMD’s Head at above provide illustration about what kind of services to be provided and how this Institution provides its services. It is clear that this Institution provides public services to both the internal users (institutions in provincial area in dealing with planning and promoting the local potency) and external users (domestic and foreign investors in dealing with investment permits and facilities).

As Kouzes & Posner (2002, p.182) explained that leadership and challenges are inextricably linked and seek each other. It is not so important whether the leader finds the challenges or they find him/her but the important is what the choice leader makes. Leader in this Institution found his challenge and he had made his choice to undertake it. In this board a new challenge faced by the leader was on how to deliver public services for all its users and he chose to highly focusing on making investment plans and doing promotion rather than just issuing investment permits. The following statement is what the leader performs to deal with this situation.

*“Action which is taken is by changing the existing paradigm of the organisation from only issuing investment permits toward actively making investment plans and doing promotion.”* (Head of BKPPMD for a 1999-2004 period)

Moreover, Kouzes & Posner (2002, p.242) said “[l]eadership is not a solo act, it’s a team effort“. This statement seems relevant with the practice of leadership in the organisation. Managing local investment is not easy job and needs a collaboration not only amongst the staff of BKPPMD but also between the board’s staff with other counterparts from district/municipalities in West Sumatera, business communities and universities.

Small groups as work teams then are frequently created in BKPPMD to accomplish specific tasks in coping with local investment. These are helpful to make the staff more focus to their work, as the small groups have “the advantage of confining attention to groups with a limited number of members” (Douglas, 1976, p.7). Indeed, these groups are established to achieve certain purposes by employing their members to the best possible use. For the success of the groups, a climate of trust seems to be created in the Institution by giving the staff opportunities to get involved in making initial plan and by encouraging them to perform particular tasks. Trusting others highly to perform tasks in the organisation has positive impacts for their members, as Kouzes & Posner (2002, p.248) again confirmed as follows:

1. • Members are more open about feelings.
2. • Members experience greater clarity about the group’s basic problems and goals.
3. • Members search more for alternative courses of action.
4. • Members report greater levels of mutual influence on outcomes, satisfaction with the meeting, motivation to implement decisions, and closeness as a management team as a result of meeting.

Respondent A58 is in agreement that the small groups are effectively operated in the Institution but still having weaknesses. As it can be seen in the following statement.

*“Organisation’s goals can be achieved because the members cooperated well in these teams. However, staff who worked hard were only a few staff in the small groups and there was a few people who did not want to get involved in the activities to achieving the goals. The staff were not working well because of various reasons such as lack of concern, lack of discipline and lack of knowledge and skill.”*

Efforts to improve the discipline as one of the core values of the Institution seem less effective in practice. Some staff (Respondents A51, A52, A58 & A5.9) in the interview assessed that the Head of Institution did not strictly place discipline in the office. Indiciplinary people who did not obey the rules or regulations were rarely imposed hard sanctions.

**Table 2: The List of Civil Servants’ Attandance in BKPPMD on August 2004**

**(in 25 Working Days)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Devision | Number of Staff | Attendance | | On Duty\* | | Absence\*\* | |
| People | Total Days | People | Total Days | People | Total Days |
| Planning | 8 | 7 | 109 | 7 | 39 | 5 | 52 |
| Promotion | 6 | 4 | 57 | 5 | 53 | 6 | 40 |
| Controling | 8 | 6 | 88 | 7 | 80 | 5 | 32 |
| Permits Service | 6 | 5 | 58 | 6 | 62 | 5 | 30 |
| General Administration | 13 | 12 | 187 | 7 | 58 | 12 | 80 |
| Total | 41\*\*\* | 34 | 499 | 32 | 292 | 33 | 234 |

Source: Researcher’ analysis of the Attendance List of Civil Servants in BKPPMD for August 2004

Note: \*) On leave for official duties

\*\*) Unattendance without notice

\*\*\*) Reasonable number processed from 45 civil servants

Civil servants’ attendance to their working place then is used as one of discipline indicators in the office. Table 2, for an example, exhibits the level of employees’ attendance in BKPPMD on August 2004. On overall, only a few staff (19.51%) was never absent without notice, most of them (80.49%) have ever been absent for at least 7 days per people in this month. Furthermore, 7 people (17.07%) never attended to their office meanwhile the rest of them averagely spent only 14 days per month in the office. This table also tells that most of them (78.05%) have ever been on leave for official duties with at least 9 days per person. Obviously, this result strengthen the prior finding in terms of lack of discipline in the office. The big number of absence in this Institution can indicate that no hard sanctions are imposed to the civil servants for their absence without notice.

In practice, the management of governmental organisations can not directly impose sanctions to the civil servants who break the rules. They only send the reports to the Local Personnel Board (BKD), then the BKD will formally impose the sanctions to those civil servants. Alternatively, the management can reduce score on the loyalty (kesetiaan3) in personnel evaluation sheet (DP3). As the impact of this, the rank of those civil servants can not be promoted. Again, the final decision on promotion is formally on the hand of BKD and the management just proposes it to this institution. However, there is a price for such proposals to the BKD. The credibility of management will be on the risk since the top bureaucrats will assume that they can not manage their staff properly. Consequently, it can influence their further career in the bureaucracy.

The staff are also encouraged to be generalised rather than specialised. At least, they know and understand in general the tasks of other divisions in their Institution*.* The argument for this is that they may have a tour of duty within or outside their organisation in the future. In addition, since they are working in BKPPMD having cross sectoral and coordinating activities, they are favorably expected to be open minded and to have more knowledge in order to assist them regarding to their complex job. The Head of BKPPMD described his efforts in the statement below:

*“To improve staff’s understanding about the tasks of other divisions, in BKPPMD teams that are assigned for the events such as workshop or promotional activities, I often involved staff from various divisions in this agency. So that, staff from one division can understand the task scope of other division, that will be beneficial for staff if they will be rotated to another division.”*

In the past, every institution did the promotional activities by its self. For examples, Agriculture Agency promoted its agricultural products and Tourism Agency did the same thing to introduce the tourist attractions of the province. In promoting local potency, BKPPMD after that took over these tasks and performed promotion for all institutions in provincial government. In one side, this idea looks excellent to promote local potency efficiently and effectively by coordinating the promotional activities of West Sumatera Province in one hand yet it can create more tasks for staff of BKPPMD to handle such an activity.

In terms of issuing investment permits, BKPPMD also needs to coordinate with vertical institution or central government bodies such as custom agency (for custom duty 3 This score should be 80 or higher at scale of 100. It should be the same or higher from the previous years facility), immigration office (for foreigners’ working permits), and BPN (for land certificate). At the time, some staff saw that the Head of board functioned many coordinating activities (respondent A52) and diplomacies (respondent A51) with the external or other institutions.

### Local Development

Policy on local investment is aimed at attracting more investors to invest in West Sumatera Province. The leaders’ role of BKPPMD to effectively implementing this policy can promote the development of investment in the region. Some indicators of local development, presumably as the result of investment development, will be discussed in this section. They include new employment, the economy growth of the region, and finally community’s welfare.

BKPPMD has important roles and position in the regional government, as stated by its Head for a 1999-2004 period as follows.

*“The job I am holding is fully challenged because the organisation of BKPPMD has a strategic position for local government. Investment position in the region is very strategic and it provides multiple impacts to regional economy. Besides, this institution gives advices to the governor about the condition of regional economy and investment opportunity.”*

Corresponding to these statements, the staff of BKPPMD understand well about the importance roles of. their Institution. From interviews to some staffs, they identified the main roles of BKPPMD in the region such as assisting the Governor in terms of local investment (40% of respondents), provide facilities for local investments (40% of them), improve the economic growth of the Province (30% of them), provide employment for local people (20% of them), improve an investment climate in the Province (20% of them), introduce local potency to other regions and countries (10% of them), and the fostering the natural resources of the province (10% of them).

Table 3 shows the progress of domestic and foreign investments in West Sumatera Province in the 1999-2002 period which are managed both BKPM & BKPPMD. It is obviously noted here that the higher number of investment projects may not contribute to the bigger amount of investment since a small number of investment projects in some cases has a significant amount of investment. For domestic investment, the highest number of project happens in 1999 with 18 projects but having the lowest average amount of investment (Rp. 8,711,083.89). Similarly, it takes a place for foreign investment in 2001 with the highest number of 17 projects but the average amount of this investment (US$ 6,328,875.88) is less than the foreign investment in year 1999 (7 projects with average investment of US$ 11,984,905.71) and year 2002 (9 projects having average investment of US$ 13,172,426.67). This table 3 also illustrates that the peak performance of investment in the period is on 2002. In this year, domestic and foreign investments in West Sumatera region achieve the highest amounts for investment in total and average. However, there was a decreasing amount of total investment for all types of investment in this region for the following year. The foreign investment in year 2003 especially has dropped to the lowest point in the period even though the number of investment projects has increased significantly,

**Table 3: Investment Realisation in West Sumatera Province**

**Managed by BKPM & BKPPMD for A 1999-2003 Period**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Domestic Investment** | | **Foreign Investment** | |
| **Number of**  **Project** | **Total Investment**  **(in Rp. Thousands)** | **Number of**  **Project** | **Total Investment**  **(in US$)** |
| 1999 | 18 | 156,799,510 | 7 | 83,894,340 |
| 2000 | 10 | 187,773,150 | 11 | 44,000,330 |
| 2001 | 14 | 183,978,180 | 17 | 107,590,890 |
| 2002 | 15 | 348,234,000 | 9 | 118,551,840 |
| 2003 | 15 | 203,045,730 | 12 | 28,223,720 |
| Total Amount | 72 | 1,079,830,570 | 56 | 383,272,120 |

Source: BKPPMD, 2004a

**Table 4: Investment Approval in West Sumatera Province**

**Managed by BKPPMD for A 2002-2003 Period**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Domestic Investment**  **(PMDN)** | | **Foreign Investment**  **(PMA)** | |
| **Number of**  **Project** | **Total Investment**  **(in Rp. Thousands)** | **Number of**  **Project** | **Total Investment**  **(in US$)** |
| 2002 | 4 | 22,195,625 | 2 | 4,354,599.88 |
| 2003 | 4 | 191,098,442 | 2 | 8,163,796.08 |
| Total Amount | 8 | 213,294,067 | 4 | 12,518,395.96 |

Source: BKPPMD, 2004a

Surprisingly, table 4 exhibits a contradictory picture of investment in West Sumatera Province from table 3. Meanwhile, the decreasing amount of domestic and foreign investment in 2003 is showed by table 3, the significant increase of those in 2003 can be seen in table 4. The number of investment for domestic and foreign investments managed by BKPPMD in West Sumatera region is absolutely the same as the previous year, but the total amount of both investments highly increases.

A few numbers of local investments however is not indicated that West Sumatera Province is not attractive for many investors. Some problems are still faced to improve local investment in the region. As illustrated by the Head of BKPPMD, for a 1999-2004 period, in the following statements:

*“At this time BKPPMD still get some obstacles to cope with a fast change. So many investors in many cases offered cooperations but this Institution could not yet accept these offers. Investors wanted to seek local business partners and to have accurate information about investment projects and permits, but it could not quickly respond because of the limited capability of human resource and the limited coordination with other vertical and horizontal institutions. Investment on Land in Agam District, for instance, can not be handled because the lateness of permits process in using the land with the regional office of BPN and this process needed coordination with the main office of BPN in Jakarta. Vertical institutions sometimes did not proceed with the documents and just left them without any actions so that investment in the region was cancelled.”*

Moreover, the other problem of local investment also comes from the District/Municipal governments within this Province in order to respond with the investment opportunitie in their regions, as reported in BKPPMD’s Annual Report below:

*“although there was the interest from an investor to invest [in one city] but the constraint also still took a place, such as for an investment plan of taxi as the city’s transportation. Since there was no permit from the City Government for the taxi station, the permit of taxi business could not be processed in this year [2002].”* (BKPPMD, 2003, p.15)

This Institution also recognises that the importance of national stability and regulations as the other main factors that can potentially increase the investment in the region, as stated below.

*“Efforts to attracting the foreign and domestic investors needs to be supported by creating the promising climate of business activities. Because one of the main condition is no security disturbance and no burdened regulations that will discourage potential investors to invest in West Sumatera.”* (BKPPMD, 2003, p.6)

National stability and security are definitely the one of the main reasons especially for foreigners to invest in Indonesia. Boom blast in Bali, the other province in Indonesia, on October 2002, for example, has a significant impact to foreign investment in West Sumatera Province although the provincial situation is quite promising in many ocassion. Travel warning and prohibition to visit Indonesia from some Western countries like USA and Australia have cancelled the prospective investors from these countries to invest in fishery and tourism sectors in 2003 (BKPPMD, 2003).

**Table 5: Domestic Investment Project Approval by Province**

**In Sumatera Island Indonesia for A 1999-2003 Period (in Billions of Rp)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Provinces** | **Period** | | | | | |
| **1999** | **2000** | **2001** | **2002** | **2003** | **2004** |
| Aceh | 84.2 | 89.6 | 64.4 | 1.2 | 98.9 | 71 |
| Sumut | 1069.3 | 363.8 | 1192.9 | 2275.6 | 868.5 | 3382.7 |
| Riau | 9082.4 | 33285.2 | 5705.5 | 1474.2 | 770.7 | 4289.7 |
| Sumbar | 572 | 575.5 | 7.5 | 0 | 289.8 | 712.3 |
| Jambi | 5585.8 | 882.2 | 771.5 | 447.4 | 107.4 | 691 |
| Sumsel | 149.3 | 67.7 | 625.6 | 12 | 839.9 | 358.2 |
| Bengkulu | 121.4 | 22.5 | 0 | 55.2 | 81.9 | 104.2 |
| Lampung | 601.7 | 297.9 | 655.7 | 1680.6 | 443.8 | 590.7 |

Source: Processed from the Monthly Statistics by Province of Central Bank of Republic of Indonesia for years 1999 to 2004

Table 5 and table 6 later show the development of investment in the Province of West Sumatera compared to its neighbour provinces in Sumatera Island Indonesia. Table 5 shows the approval of domestic investment project in 8 Provinces in Indonesia. Riau Province is frequently the most attractive place in Sumatera Island for domestic investors in the 1999-2004 period. Domestic investment in West Sumatera seems to fluctuate in the period. The lowest domestic investment occurs in 2002 with having no investment approval and the biggest investment in the period happens in 2004. Compared to its neighbour provinces, the domestic investment in West Sumatera in general is higher than that in Aceh, Sumsel and Bengkulu in the period.

Table 6 illustrates the approval of foreign direct investment project in 8 Provinces in Indonesia. Riau Province again is the most attractive place in Sumatera Island for foreign investors in the 1999-2004 period. Foreign investment in West Sumatera looks to oscillate too in the period after it reach its peak in 1999.. The lowest foreign investment takes place in 2002. Compared to its neighbour provinces, the total amount of foreign investment in West Sumatera is still higher than that in Jambi and Bengkulu in the period.

**Table 6: Foreign Direct Investment Project Approval by Province**

**In Sumatera Island Indonesia for A 1999-2003 Period (in Millions of USD)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Provinces** | **Period** | | | | | |
| **1999** | **2000** | **2001** | **2002** | **2003** | **2004** |
| Aceh | 51.8 | 1811.1 | 6 | 0 | 82.5 | 9.5 |
| Sumut | 205.2 | 193.34 | 106.5 | 44.5 | 57.6 | 151.5 |
| Riau | 6956.9 | 418 | 2095.4 | 1152.4 | 1175.3 | 536.4 |
| Sumbar | 344.9 | 18.5 | 38.2 | 10 | 45.3 | 32.1 |
| Jambi | 42 | 252.7 | 5.7 | 21.6 | 0.6 | 35.7 |
| Sumsel | 39.7 | 215.5 | 44.6 | 764 | 242.7 | 80 |
| Bengkulu | 18.6 | 0.2 | 1.9 | 0 | 0 | 1.4 |
| Lampung | 95.9 | 36.3 | 53.9 | 85.7 | 1.1 | 265 |

Source: Processed from the Monthly Statistics by Province of Central Bank of Republic of Indonesia for years 1999 to 2004

Many potential resources in West Sumatera are not still explored and developed. Agriculture sector for example is quite famous in this region and it has a potency to be developed. Forestry, mining, manufacturing and tourism are then other potential resources for regional development (BKPM, 2004). The availability of these natural resources can certainly attract the investment opportunities for the province. Provincial government consequently needs to take strong efforts to introduce these local potencies to the potential investors to develop local investment.

**Table 7: Cumulative Number of PMDN/PMA Companies’ Employees**

**in West Sumatera Province for A 1999-2003 Period**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **PMDN Companies** | | **PMA Companies** | |
| **Indonesians** | **Foreigners** | **Indonesians** | **Foreigners** |
| Until 1999 | 31,601 | 54 | 14,720 | 123 |
| Until 2000 | 33,645 | 50 | 16,295 | 46 |
| Until 2001 | 35,418 | 46 | 19,229 | 132 |
| Until 2002 | 33,384 | 29 | 17,689 | 127 |
| Until 2003 | 33,298 | 26 | 19,912 | 115 |

Source: BKPPMD, 2004a

As the result of those investment projects (both PMDN and PMA), new employment can be created for local people. Table 7 demonstrates the number of domestic and foreign employees who works in PMDN/PMA companies in West Sumatera for a 1999-2003 period. Until 2003 these companies can hire 33,298 local people and 19,912 foreigners. Foreign workers are still likely to work in the companies because they generally are companies’ share holders and experts in the special field. Table 7 also exhibits that the cumulative number of employees in both PMDN/PMA companies considerably increases from 1999 to 2001 and then the number decreases in the following years (except for PMA companies in 2003).

It is unexpectedly found here that the number of investment projects (in table 3) has no positive relationship to the cumulative number of employees working in these projects (in table 7). Table 3 illustrates a significant improvement of foreign and local investments in 2002 and they reach their peak amounts but the number of employees working in these projects is decreased so much (see table 7). By contrast, while the total amount of PMA investment is dramatically declined in 2003 (see table 3) but the cumulative number of employees hired by PMA companies in table 7 is greatly increased in this year.

**Table 8: Coefficient Correlation between PMA & PMA companies’ Employees**

**and PMDN & PMDN companies’ Employees in West Sumatera Province**

**for A 1999-2003 Period**

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Source: Processed by SPSS version 11.5 for Windows from the table 2 & table 6.

Statistical evidence also proves that there is no significant association not only between PMA and PMA companies’ employees but also between PMDN and PMDN companies’ employees. Table 8 explains that the correlation between PMA and PMA companies’ employees in West Sumatera Province for the 1999-2003 period is negative (-0.108) and not significant. The Pearson Correlation between PMDN and PMDN companies’ employees is also not significant and positive (0.476).

In fact, every creation of a new company will have an impact to the need of new employees. 4 new PMDN projects in 2003 (see table 4) will need 282 employees consisting of 281 local people and 1 foreigner, and 2 new PMA projects call for 80 local people and 8 foreigners to work (BKPPMD, 2004a). For this reason, it is still obvious that new investment project can provide new employment. The increased or decreased cumulative number of employees in PMDN/PMA companies may not only be affected by the number of investment but also be influenced by other factors such as the liquidation of the existing companies, employees’ dismissal or recruitment in these companies, and the possible use of high technology.

Furthermore, the investment sector will contribute the growth of regional economy. As CY Boestal, the director of Indonesia Bank at Padang branch office said that the investment sector in West Sumatera Province temporarily contributed 19% of economy growth in 2005 (Padang Ekspress ONLINE, 21 September 2005).

Moreover, by attracting investors to build their plants in the region, this Institution can assist local community to get their consumption goods easily and efficiently since most of consumption goods for local community in West Sumatera are imported from other provinces.

**CONCLUDING REMARKS**

Critically, when this Institution can not provide the service of investment permits effectively and efficiently because of the complexity of investment procedures at the local level, this initiative have been placing the organisation’s position more crucial in promoting the growth of investment in the region. Indeed, there has been a high degree of understanding of the staff about “the strategic role” of their organisation to the economy growth of their province.

Public sector leaders can successfully play their roles and make a difference by making connections with their top bureaucrats, employees, and service users to promote employees’ welfare, local development and service delivery. People in the leadership position of the Institution in this case study have practiced it by concerning more on the plan and promotion of the local potency rather than just issuing the investment permits. As their response to the implementation of Indonesia’ decentralisation policy (Law 22/1999), they play their important roles to influence their staff in accepting the higher responsibilities to deal with local investment.

Significantly, some evidences then show the essence of leadership in this organisation from people who are in the leadership position. The first evidence refers to leadership autonomy4. This autonomy indicates the leaders’ independence on their higher superiors. The indicator of department heads’ dependence on higher authority, argued Meyer (1975), can be seen from their appointment method. In BKPPMD, people in leadership position who are appointed through appointment mechanism for structural position by the Provincial Governor are seemly considered to be dependent on his immediate superiors (the Governor and Secretary of the Province). It is strongly believed because their organisation is the part of provincial government and their roles are ruled by local regulations. In addition, they are technically also dependent on the State Minister of Investment/Head of BKPM as their indirect superior in terms of investment affairs since this minister is the higher authority of provincial region and he provides the technical guidance and procedures for investment.

Nevertheless, the leaders of this Institution in reality can freely make their own decisions to implement the tasks for the organisation. Some efforts for the improvement of both employees’ welfare and public service delivery (as discussed in detail at the results and discussion section) can clarify this circumstance.

Moreover, this study agrees with Meyer’s (1975, p.524-525) finding that ”[the Heads of Department]…who are either elected or appointed through civil service procedures are considered autonomous…because they have been elected or have civil service protection.” The leaders are formally appointed to work in the investment sector. Consequently, they are fully responsible to develop this sector because they principally have known or will know their field better than others (include their direct superiors).

Leadership autonomy can also be seen from their ways to cope with a changing environment. Uncertainty of organisational environment, i.e. changing regulations of central government, faced by this Institution inspires them to shield their organisation by empowering their civil servants (through staff development and learning by doing in a small ‘members-from-multi divisions’ group) and by challenging the change (by promoting new paradigm in service provision).

Responding to the importance of staff’s involvement in facing an organisational change, Zenger & Folkman (2004, p.18) reminded about the possibility of uncooperative reasons behind this issue.

“…leaders who favor involving others in change sometimes fail to provide *enough* direction, leaving employees confused about their roles and what they need to do to keep the change moving forward. Sometimes leaders who tend toward involving others are simply unwilling to take risks or make tough decisions.”

To some extent, this case study does not agree with that statement since the leaders clearly show the direction of organisation to face a changing environment by focusing to the plan and promotion of local potency to invite the potential investors. However, the only confusion that may take place is the increasing workload of staff in this board to coordinate all promotion activities in the province for attracting investment

As a final point, the study supports Zenger and Folkman’s (2004) opinions of the extraordinary leadership and it also suggests some strengths of leadership in BKPPMD as pointed below:

1. o Leaders inspired their staff to lead organisational change as a response to Indonesia’ local autonomy by rallying around a change rather than to accepting the change.
2. o Leaders took initiatives to make things happen.
3. o Leaders created organisational capacity and built people.

Unfortunately, the two critical points in leadership still need to get attention at this organisation. First, the attention to staff’s discipline to attend the office and obey their duties during the absence of the heads. Then, intensely appeal to their followers’ self interest by the use of short-term and long-term rewards.

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1. Dosen Jurusan Manajemen FEUA dan PhD Flinders Institute of Public Policy and Management [↑](#footnote-ref-2)
2. One roof service system is a service system that provides investment permits and approvals through one government institution, BKPM, having responsibility for investment affairs. [↑](#footnote-ref-3)