
The Effect of Allocation of Dividend of the Regional Government-Owned Enterprises and the Empowerment Efforts on the Revenue of Regional Government: The Case of Indonesia

Iskandar Muda¹

Abstract:

The purpose of this study is to find out the factors influencing the increase in the dividend of the Regional Government-Owned Enterprises (BUMD) in North Sumatera Province. In addition, it is also to determine the steps and efforts in empowering and improving the capacity of BUMD in increasing the allocation of dividend to the Regional Government of North Sumatera.

It is an explanatory survey study, a study which justifies the relationship between the independent and dependent variables and explains the relationship. This study used survey for its research design. The data used in this study are primary and secondary data. The population of this study is the Regional Government-Owned Enterprises of North Sumatera Province. The samples were taken by using purposive sampling method with the stakeholders of the Regional Government-Owned Enterprises of North Sumatera Province being PT. Bank Sumut, PT. Kawasan Industri Medan, PT Perkebunan Sumut, PT. Askrida and PT. Dirga Surya as the respondents, 66 in total. The method used in this study is the Descriptive Quantitative method with Structural Equation Modelling (SEM) by using AMOS as the analytical tool. For the analysis of perception, this study used SPSS for the statistics.

This study concluded that (1) The factors of Equity Capital (Penyertaan Modal) and Other Legitimate Local/Regional Government Revenue of Provinces and Districts/Cities can increase the sources of Local/Regional Government Revenue. (2) Strategic moves taken which can increase the dividend of Regional Government-Owned Enterprises including Enterprise Cultivating Strategy, Enterprise Growing Strategy and Enterprise Restructuring Strategy.

Keywords : *Equity Capital (Penyertaan modal), Corporate Social Responsibility Program and dividend.*

JEL Classification Codes : *G12, G15, G32, G35, L33*

¹Associate Professor, Department of Accounting, Faculty Economics and Business, Universitas Sumatera Utara, Medan, North Sumatera, Indonesia.
Corresponding Email: iskandar1@usu.ac.id

1. Introduction

Regional Government-Owned Enterprises (BUMD) is one of the Local Own-Source Revenue (PAD) in the Region, by which BUMD is required to be more professional and efficient in carrying out their businesses. The policies and efforts made to increase the profitability of BUMD have been conducted. However, due to various constraints faced by BUMD in general, they have not shown good results yet as the relatively small role and contribution of the profits of BUMD in Local Own-Source Revenue (PAD) in the region, both at the provincial and district/city levels. The performance of BUMD is far from the influence of globalization due to the great intervention from the central and local governments and from the legislative body. Public companies (*perusahaan terbuka*) are mostly influenced by the globalization (Glavina, 2015). Globalization, among others, is influenced by foreign capital that regulates stock prices and structure of the management. Compared to the management of State-Owned Enterprises, especially in Norway, which is directly managed by the Norwegian Ministry of Finance and is subject to the provisions of the Finance Management Regulations of Norway (Norwegian Ministry of Trade and Industry, 2008). There are some benefits obtained, such as the easily controlled company's business moves and prioritized public services as well as and sufficient profit.

Unlike in Indonesia, there are various problems faced by BUMD in Indonesia, especially in North Sumatra, (Muda *et al.*, 2016) such as: (1) the weak capability of the company management; (2) weak capability of business capital; (3) the outdated machinery and equipment compared to other similar companies; (4) lack of service and marketing capability which makes them difficult to compete; (5) lack of coordination among BUMD, especially in relation to the upstream and downstream industries; (6) lack of attention and ability to the maintain owned assets which result in low productivity and quality and accuracy of production; (7) the amount of administrative expenses, due to the relatively large number of low-quality employees; and (8) the retained unprofitable BUMD with a reason of avoiding the Termination of Employment (PHK) and the obligation of providing public service. In addition, the complaints which are often delivered by the internal and external parties of local companies are regarding the considerable intervention from the local government on the implementation of BUMD and the limitations on certain authorities in the operation of the company. Furthermore, the assignment of directors which is inseparable from the consideration of Collusion, Corruption and Nepotism or the closeness of the candidates with the head of the region (Lubis *et al.*, 2016). In this connection, there are many cases of assignment of directors and even of the workers which are not considered based on professionalism, expertise and skill, and even the assignment in the regional government-owned enterprise for certain government officials (Lubis *et al.*, 2016; Suryanto, 2016).

In line with the increasing needs of regional development funding, the regional governments should be able to plan the intensification and extensification of

revenues that can be sought by the region itself, especially on PAD. Currently, the sources of PAD are still relatively small compared to the balancing fund (Dana Perimbangan). Therefore, the Regional Government needs to encourage the economic activities in its region that can encourage the growth of regional government revenue. One of the policies that can be made by the Regional Government is by establishing the Regional Government-Owned Enterprises (BUMD)/Local Companies, which are ideally expected to be one of the sources of local government revenue (Yazid and Suryanto, 2016; Hapsoro and Suryanto, 2017).

BUMD is an embodiment of the role of local/regional government in the regional economic development. Equity capital in the state-owned enterprises and/or regional government-owned enterprises (BUMD) can be done by Provinces as mandated in Article 304 of Law Number 23 of 2014 concerning Local/Regional Government. BUMD plays a strategic role in the era of regional autonomy, by which Indonesia currently has 1.007 BUMD with the assets reach IDR 340.118 trillion and with a profit of more than IDR 10 trillion or an average of *Return on Asset* (RoA) ratio of 3 percent. The low level of RoA shows that BUMD management is not optimal yet in terms of finance and performance (BPKP, 2016).

The growth of PAD of North Sumatera Province during the last 5 (five) years has not increased significantly. There are various efforts and policies need to be made to optimize the PAD, one of them is through the Regional Government-Owned Enterprises which are expected to increase local government revenue as a source of development funding in North Sumatera Province. In order to increase PAD from BUMD sector, the Provincial Government of North Sumatera issued a Regional Regulation (Perda) of North Sumatera Province Number 5 of 2013 concerning The Guidelines for the Establishment and Management of Regional Government-Owned Enterprises of North Sumatera Province. The establishment of BUMD is aimed at accelerating the the process of regional development for the sake of community wealth and at providing maximum contribution to the Local Own-Source (PAD) and/or at providing public services maximally, as shown in the Table below:

Table 1. *The Contribution of BUMD on the PAD of North Sumatera Province.*

No.	Regional Government-Owned Enterprises (BUMD)	The Contribution on the Local Own-Source Revenue (PAD) of North Sumatera Province
1	PT. Bank Sumut	93,42%
2	PT. Perkebunan	6,28%
3	PT. Kawasan Industri Medan	0,27%
4	PT. Dirga Surya	0,02%
5	PT. Askrida	0,01%

Source: *The Accountability Report of the Governor of North Sumatera (2016).*

Based on the data, the contribution of BUMD to the PAD of North Sumatra Province is only from a few of the all existing BUMD. The efforts made to increase the capacity of BUMD is in the form of capital increase (*penambahan modal*), especially to PT. Bank Sumut, in the form of equity capital from West Nias Regency, Labuhan Batu Selatan Regency, Gunung Sitoli City and North Nias City in 2017, thus, 100% Cities and Regencies in North Sumatera have conducted equity capital. In the second place, PT. Perkebunan Sumut has also provided a great contribution to PAD. The compositions of the paid-in capital (*modal disetor*) and dividend of PT. Plantations are presented in the following Table 2:

Table 2. *The Shareholding of Provincial Government of North Sumatera till 2016.*

Year	The Paid-In Capital of the Provincial Government (Rp)	Dividend (Rp)
2002	Rp.8.000.000.000.-	Rp.2.200.000.000.-
2003	Rp.2.000.000.000.-	Rp.2.530.000.000.-
2004	Rp.4.000.000.000.-	Rp.3.376.898.000.-
2005	Rp.5.000.000.000.-	Rp.4.326.898.000.-
2006	Rp.7.000.000.000.-	Rp.4.755.854.000.-
2007	Rp.10.000.000.000.-	Rp.5.754.582.500.-
2008	Rp.27.000.000.000.-	Rp.8.000.000.000.-
2009	Rp.17.000.000.000.-	Rp.10.000.000.000.-
2010	Rp.10.000.000.000.-	Rp.15.000.000.000.-
2011	Rp.20.917.706.000.-	Rp.26.354.322.495.-
2012	Rp.47.000.000.000.-	Rp.28.000.000.000.-
2013	-	Rp.15.000.000.000.-
2014	-	Rp.17.500.000.000.-
2015	-	Rp.15.000.000.000.-
2016	Rp.50.000.000.000.-	Rp.15.000.000.000.-
Total	Rp.207.917.706.000.-	Rp.172.798.545.395.-

Source: Processed Data (2017).

Based on the background that has been described previously, the formulation of problems are as follows (1) What factors play a role in increasing the dividend of BUMD of North Sumatra Province? (2) What moves, and efforts should be made to empower and increase the capacity of BUMD in increasing the Dividend payment to the Provincial Government North Sumatera?

2. Literature Review

2.1 State-Owned Enterprises (SOE)

State-Owned Enterprises (SOEs) experience complex environmental changes. The complexity of the problems is due to the demand to provide public services and also to be able to compete in the middle of globalization. The changes occur both from the organizational and institutional sides. The changes which have been made are started from the goals of the organizations for seeking profits, competitiveness in the international market and to be able to overcome the problems of employment

(Stefano and Giulio, 2015). The OECD (2005) indicators have mapped it into 4 indicators; the smallest grade with a range of 0-6, highest level, level of entry barriers and largest company.

2.2 Previous Research

The research conducted by McGuinness *et al.*, (2015) concluded that the implementation of agency theory states that the factors of gender and characteristics of the CEO have a great effect on the distribution of cash dividend in public companies in China. The research conducted by Al-Najjar (2016) concluded that the ownership structure consists of family involvement, domestic financial institutions and minority shareholders has a great effect on the dividend policy in local companies in Turkey. The result of the research conducted by Su (2015) by surveying the dividend policy in China stated that the Chinese government is entitled to control the allocation of credit provided by the regional government-owned enterprises in China because the Chinese government is concerned that the financial companies in China, especially for Banks, should contribute mainly to the infrastructure development. The research conducted by Kilincarslan *et al.* (2015) found that, especially on the mechanisms of the emerging markets (*pasar negara berkembang*) which are determined by the behavior factors of dividend policy and ultimately have an effect on the economic structure of a region, the dividend policy in China is influenced by the institutional arrangements, conventional factors especially on profit and ability to pay. Muda *et al.* (2006) state that the dividend policy of regional government-owned banking companies is determined by the amount of equity capital and at least has an effect on the regional economic growth. The research conducted by Mitrokhin *et al.*, (2016) concluded that banking institutions which are able to to the revenue are strongly influenced by the credit or lending flows that generate interest income and are ultimately distributed in the form of dividends to shareholders.

3. Methodology

This study is an explanatory survey that is a study that justifies the relationship between the independent and dependent variables and explains the relationship (Muda *et al.*, 2016; 2017). The phenomenon that is illustrated from the causal relationship factor becomes a justification for the conclusion of the hypothesis. The data collection of this study used primary and secondary data. Questionnaires are used to describe respondents' preferences for equity capital in BUMD. Secondary data are used to see the amount of dividends, equity capital, regional government expenditure and other legitimate regional government revenue from the regional government-owned enterprises which contribute to the local own-source revenue.

The population of this research is the Regional Government-Owned Enterprises (BUMD) in North Sumatera Province. The sampling was conducted by using *Purposive Sampling method*, so that the respondents for this study are: PT. Bank Sumut, PDAM Tirtanadi, PT. Perkebunan, PT. Kawasan Industri Medan (KIM),

PT. Dirga Surya and a Regional Insurance Company, namely PT. Askrida. The selection of the samples is based on the contribution of dividend to the Local Own-Source Revenue (PAD) of North Sumatra. The methods used are the statistical analysis of frequency and quantitative technique by using Structural Equation Modeling (SEM) (Muda *et al.*, 2016).

The independent variables of this study are Total Dividend (X_1), The Amount of Equity Capital (X_2), Total Regional Government Expenditure (X_3), and Other Legitimate Regional Government Revenue (X_4) while Local Own-Source Revenue (PAD) (Y) is the dependent variable. To see the effect between the variables, the SEM test was conducted as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e \quad (1)$$

Where:

Y = Local Own-Source Revenue (PAD)

X_1 = Total Dividend (X_1)

X_2 = The Amount of Equity Capital (X_2)

X_3 = Total Regional Government Expenditure (X_3)

X_4 = Other Legitimate Regional Government Revenue (X_4)

α = Constant

β = Regression Coefficient

e = Error

Furthermore, the analysis of contribution ratio was conducted to see the capacity and contribution of BUMD to the Regional Government Budget of North Sumatra Province.

4. Results and Discussion

The data processing conducted by using the *Structural Equation Model* (SEM) analysis, using AMOS. The results of the analysis of the relationship between variables are presented in the following Table 3.

Table 3. Regression Weights: (Group number 1 - Default model)

	Estimate	S.E.	C.R.	P	Label
PAD_Y <--- Dev_X1	-,030	,157	-,192	,848	par_1
PAD_Y <--- Cap_X2	,517	,166	3,107	,002	par_2
PAD_Y <--- Capex_X3	,187	,193	,965	,334	par_3
PAD_Y <--- Oth_Rev_X4	,323	,062	5,217	***	par_4

Source: Output AMOS 22 (2017).

The evaluation on Regression Weight for causality test used the CR value. The results of the test, as presented in the Table, show that all of the regression

coefficients are significantly not equal to zero, therefore, the null hypothesis that the *regression weight* is equal to zero is rejected, and accept the alternative hypothesis that each indicator has a causality relationship, which means that the model is acceptable.

1. Total Dividend (X_1) does not have a significant effect on the Local Own-Source Revenue (Y) with a critical ratio value of 0,848.
2. Equity Capital (X_2) has a significant effect on the Local Own-Source Revenue (Y) of 0,002.
3. Capital Expenditure (X_3) does not have a significant effect on the Local Own-Source Revenue (Y) of 0,334.
4. Other Legitimate Regional Government Revenue (X_2) has a significant effect on the Local Own-Source Revenue (Y) of 0,000.

The strength of the latent-factors-establishing-dimensions can be tested by using the *Critical Ratio* (CR) against the *regression weight* generated by the model. The result shows that the higher the Equity Capital of Province and District/City and the increase in other sources of Legitimate Regional Government Revenue on the Capital Structure of BUMD will have an effect on the Local Own-Source Revenue. Based on the results of the questionnaires distributed to the Local Governments of Gunung Sitoli, Labuhan Batu Selatan, South Tapanuli, Nias Induk and Pakpak Bharat, the result of tabulation of the first question states agree to the statement of "Regional Government-Owned Enterprises (BUMD) is a prioritized source of Local Government to contribute to the regional treasury". This is illustrated in the following Table 4:

Table 4. *The Descriptive Frequency of the First Question q1.*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1,00	1	1,5	3,0
	2,00	3	4,5	12,1
	4,00	19	28,8	69,7
	5,00	10	15,2	100,0
	Total	33	50,0	100,0
Missing	System	33	50,0	
Total		66	100,0	

Source: Primary Data Tabulation (2017).

The result of tabulation from the second question states "The Regional Government prepares a great equity capital in the Regional Government-Owned Enterprises (BUMD) states agree." The results are presented in Table 5 as follows:

Table 5. *The Descriptive Frequency of the Second Question q2.*

	Frequency	Percent	Valid Percent	Cumulative Percent
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Valid	1,00	1	1,5	3,0	3,0
	2,00	1	1,5	3,0	6,1
	3,00	2	3,0	6,1	12,1
	4,00	22	33,3	66,7	78,8
	5,00	7	10,6	21,2	100,0
	Total	33	50,0	100,0	
Missing	System	33	50,0		
Total		66	100,0		

Source: Primary Data Tabulation (2017).

The result of tabulation from the third question states “The Regional Government-Owned Enterprises (BUMD) has a rapid growth and development which states agree and strongly agree”. The results are presented in Table 6 as follows:

Table 6. *The Descriptive Frequency of the Third Question q3.*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2,00	4	6,1	12,1	12,1
	4,00	14	21,2	42,4	54,5
	5,00	15	22,7	45,5	100,0
	Total	33	50,0	100,0	
Missing	System	33	50,0		
Total		66	100,0		

Source: Primary Data Tabulation (2017).

The result of tabulation from the fourth question states “The general policy of the Regional Government Budget will give information regarding revenue and funding from the profits of the Regional Government-Owned Enterprises states agree and strongly agree”. The results are presented in Table 7 as follows:

Table 7. *The Descriptive Frequency of the Fourth Question q4.*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	4,00	21	31,8	63,6	63,6
	5,00	12	18,2	36,4	100,0
	Total	33	50,0	100,0	
Missing	System	33	50,0		
Total		66	100,0		

Source: Primary Data Tabulation (2017).

The result of tabulation from the fifth question states “Currently, the equity capital to the Regional Government-Owned Enterprises is highly important and urgent which the majority states strongly agree”. The results are presented in Table 8.

Table 8. *The Descriptive Frequency of the Fifth Question q5.*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	4,00	22	33,3	66,7	66,7
	5,00	11	16,7	33,3	100,0
	Total	33	50,0	100,0	
Missing	System	33	50,0		
Total		66	100,0		

Source: Primary Data Tabulation (2017).

The result of tabulation from the sixth question states “Equity capital influences the Local Own-Source Revenue strongly” (Table 9).

Table 9. *The Descriptive Frequency of the Sixth Question q6.*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2,00	1	1,5	3,0	3,0
	3,00	1	1,5	3,0	6,1
	4,00	19	28,8	57,6	63,6
	5,00	12	18,2	36,4	100,0
	Total	33	50,0	100,0	
Missing	System	33	50,0		
Total		66	100,0		

Source: Primary Data Tabulation (2017).

PT. Kawasan Industri Medan (KIM)

The contribution of PT. Kawasan Industri Medan (KIM) to PAD of North Sumatera Province in 2010 was in a profit condition of PT. KIM of IDR 22,469 billion, in 2011 for IDR 34,309 billion and was increased in 2012 to IDR 54,125 billion, in 2013 for IDR 58,112 billion. While in 2014, it reached IDR 31,207 billion and in 2015 for IDR 33,785 billion (www.medanbisnisdaily.co.id). The development of the paid-in dividends in 2010 was influenced by the development of profit after tax. PT. KIM was able to pay the dividends of 10% of net income. For the equity capital of PT KIM, the shareholding of the government is 60%, the Provincial Government of North Sumatera for 30% and the Local Government of Medan City for 10%. The financial performance of the net profit of PT KIM began to decline in 2013 after the land for sale was reduced. In 2015, PT. KIM Persero only paid its dividend proportion of IDR 1,031 billion to the Provincial Government of North Sumatera from the dividend proportion of 10% of net profit of IDR 3,378 billion.

PT. Dirga Surya

PT Dirga Surya is one of the regional government-owned enterprises of North Sumatera Province. The management of PT. Dirga Surya is currently trying to build properties including hotels, office buildings and so forth. Currently, PT. Dirga Surya has not been able to pay the dividends to its shareholders yet.

PT. Askrida

PT. Askrida is a national private company which is engaged in general insurance and offers loss insurance protection (*asuransi resiko kehilangan*), especially for the government buildings and other government properties. The total assets of the company increased by IDR 2.074 billion in 2015, compared to 2014 which only reached IDR 1,932 billion and IDR 1,648 billion in 2013 (www.medanbisnisdaily.co.id). Meanwhile, the payment of dividends to the Provincial Government of North Sumatera in 2012 was amounted to IDR 142 million, which increased in 2013 to IDR 170 million and the payment of dividend in 2014 for IDR 199 billion and increased to IDR 226 million in 2015.

PT. Bank Sumut

Bank SUMUT continues to increase the payment of dividends to its shareholders. Related to the payment of dividend, it is determined in the Annual General Meeting (RUPS) by looking at the performance and capability of the bank annually. The benefit received by the City/District and the Provincial Government of North Sumatra is in the form of dividend.

Based on the data, the Cash Dividend paid by the Bank was 65% or IDR 302.207.724.104 (Annual Financial Statement of PT Bank Sumut, 2016). Specifically to the Local Government of South Tapanuli Regency, in the last year profit sharing, the share of retained earnings was distributed as cash dividend. Thus, for the sake of fairness, as the other shareholders experienced a decrease in Retained Earnings due to the implementation of PSAK 24 and PSAK 50/55, the payment of cash dividend to the South Tapanuli Regency was reduced based on the calculation of decrease in retained earnings due to the implementation of PSAK, which was IDR 6.834.954.168 and was paid to other Shareholders according to the portion of the last year Retained Earnings. The Paid-in Capital was 30% or IDR 139.480.488.048 (PT. Bank Sumut, 2016). In 2016, the amount of the paid dividends increased to IDR 350.730.459.000. It shows a significant increase due to the highest profit increase in the history of PT. Bank Sumut in recent 52 years, where the profit achieved was IDR 584.520.890.000., thus, it automatically increased the payment of dividends to the shareholders.

In addition to dividend, the Provincial Government of North Sumatera also obtains another benefit in the form of Corporate Social Responsibility (CSR) Program. The CSR programs and activities are long-term oriented to realize the sustainability of the company. The program is not only a charity, but also supports the sustainable development programs which have a principle to meet current needs without compromising the needs of the future generations. The corporate social responsibility is expected to contribute to support the resolution of national issues such as economic issues, poverty and inequality, resolution of security and safety issues and the improvement of humanitarian quality. Corporate Social Responsibility (CSR) is a part of the Bank's programs which is a commitment of Bank SUMUT in the sustainable economic development (Muda *et al.*, 2016). Moreover, Bank

SUMUT is a Regional Development Bank which provides most of its credit to the small and medium enterprises. It also aims to encourage people's economic activities and growth and the creation of equitable development through the expansion of employment. In order to maintain the sustainability of the company's business, Bank SUMUT not only prioritizes the profit, but also care about social life that is not limited to social activities and the provision of aids for the natural disaster victims, but also the responsibility towards the preservation of arts and culture as well as coaching through its partners in order to improve the ability of the small-business entrepreneurs and cooperation to be more tough and independent in managing business development.

The implementation of the CSR program of Bank SUMUT refers to the legislations in Indonesia, which regulate both general and specific aspects of CSR, among others; Article 74 of Law No. 40 of 2007 concerning Limited Liability Company (UUPT) and Government Regulation No. 47 of 2012 concerning Social and Environmental Responsibility. In addition, as the seriousness of Bank SUMUT towards the implementation of CSR, it specifically stipulates an internal regulation through the Decree of Directors No.187/Dir/SP-PR/SK/2014 concerning Social and Environmental Responsibility dated October 1, 2014.

Bank SUMUT perceives CSR as a long-term investment, so that the plan must be taken into account in order to have smooth realization of all CSR programs and the achievement of targets. One important factor in the implementation of the CSR program is the availability of funds or budgets allocated specifically for CSR activities. Therefore, Bank SUMUT has budgeted CSR for IDR 15 billion based on the resolution of RUPS No. 106/Dir/SP.SPR/Psh/2016 of May 2016 and on Deed No.2 dated June 4, 2016. The plan for CSR Program of Bank SUMUT refers to the Decree of Directors No.187/Dir/SP-PR/SK/2014 concerning Social and Environmental Responsibility dated October 1, 2014, where the management of CSR is divided into 2: the CSR in coordination with the Regional Government and the CSR managed directly by Bank SUMUT. The planned Programs are in line with the proposals submitted by stakeholders through the branch offices after getting a verification by the CSR coordination team. The CSR budget set by Shareholders is the budget issued for Economics, Education & Entrepreneurship and Environment. Meanwhile, the budget for Employment and Customers is at the cost of the Company. The implementation of CSR activities on social and community development in 2016 was packaged in several areas of activities; Economic Value Improvement, Public Facilities and Infrastructures, Healthcare, Social & Religion, Education & Environment.

During 2016, the realization of the funds distributed for Environment was IDR 1,4 billion, Society for IDR 15 billion, Employment for IDR 786 billion, and Customers for IDR 3,4 billion, where the funds consisted of sponsorship and Hajj Pilgrimage costs. The Board of Directors had increased the CSR funding by 2,96% in 2015, from IDR 30,4 billion to IDR 31,3 billion in 2016. The realization of CSR Program

Fund Utilization is divided into 2 (two) implementation patterns; the Synergized utilization with the Regional Government and direct management By Bank SUMUT. The details of the determination of CSR budget are as follows:

- a. The accountability report for the utilization of CSR program of Bank Sumut accounted in December 31, 2015 was IDR 13.746.483.908.
- b. The remaining unused fund of CSR programs sourced from the reserved budget rwas IDR 13.909.182.845 to every local government and would be transferred to the next year if it is not used completely.
- c. The maximum amount of the budget of CSR program of Bank Sumut in the fiscal year of 2016 was IDR 15 billion which was at the expense of the bank business plan in the fiscal year of 2016 as other cost.

The Contribution of Total Dividends of PT. Perkebunan Sumut to the Provincial Government of North Sumatra in the period of 2002-2016 is as follows (Table 10):

Table 10. *Shareholding of the Provincial Government of North Sumatera till 2016*

Year	Dividend (Rp)
2002	Rp.2.200.000.000.-
2003	Rp.2.530.000.000.-
2004	Rp.3.376.898.000.-
2005	Rp.4.326.898.000.-
2006	Rp.4.755.854.000.-
2007	Rp.5.754.582.500.-
2008	Rp.8.000.000.000.-
2009	Rp.10.000.000.000.-
2010	Rp.15.000.000.000.-
2011	Rp.26.354.322.495.-
2012	Rp.28.000.000.000.-
2013	Rp.15.000.000.000.-
2014	Rp.17.500.000.000.-
2015	Rp.15.000.000.000.-
2016	Rp.15.000.000.000.-
Total	Rp.172.798.545.395.-

Source: *Financial Statement of PT. Perkebunan Sumut (2017).*

Based on the data, it is shown that PT. Perkebunan Sumut is a Regional Government-Owned Enterprise (BUMD) that is profitable and able to contribute its dividend to the Provincial Government of North Sumatra. PDAM Tirtanadi (Water Supply Company) of North Sumatra Province, based on the interviews and field observations, had never contributed to the local own-source revenue (PAD) of the Provincial Government of North Sumatra since 2010 until today. Tirtanadi gives a reason that, so far, there is no obligation for Tirtanadi to contribute to PAD. The current profits are invested in improving its customer service. The provision regarding the contribution to PAD is stipulated in the Circular Letter (SE) of the Minister of Home Affairs Number 690/477/SJ in 2009, that PDAM (Water

Supply Company) is exempted from the obligation to contribute to PAD if its service coverage has not reached 80% yet. Furthermore, it is stated in the Regional Regulation of North Sumatera No. 10 of 2009 concerning PDAM Tirtanadi, in Article 63 Paragraph 2, that the utilization of the profit is applied after the coverage of drinking water service reaches 80% of the total population served by the PDAM.

Regional Government-Owned Enterprise (BUMD) is a business entity that should have a very important role in the economic rotation of a region. BUMD was established by the local government with various goals. One of them is to be a profit center for the increase of the local own-source revenue (PAD) through the dividend acquisition. Local/Regional government, as the owner of BUMD, certainly expects a revenue from BUMD to increase the local/regional revenue. In addition, the presence of BUMD is expected to open employment opportunities, protect the small and medium enterprises, and to be the implementors of regional government policy in economy and development. On the other hand, there are certainly duties and responsibilities to assist the tasks in public service, so that people feel the assistance by the presence of the local government through the roles and functions of BUMD.

The empowerment efforts made are started by creating an atmosphere or climate that allows its potential to develop. Empowerment is an effort to build the power by encouraging, motivating and evoking the existing potentials and to develop it. Secondly, is to reinforce the potential or power it possesses, for which the more positive and tangible moves are needed (Muda *et al.*, 2016), the provision of the necessary inputs, and the access opening to many opportunities, so as to be empowered in utilizing the opportunities. Finally, empowering also means protecting, so that, in the process of empowerment, it must be prevented for the weaker parties to be weaker, as they should live with adequate competitiveness.

5. Discussion

There are various moves and actions that can be taken to improve the business performance of BUMD, with strategic actions that can be grouped into three strategies, namely exploiting, growing and restructuring strategies which can be summarized as follows (Kamaluddin, 2001):

- (1) Exploiting Strategy, which can be performed by taking moves or actions in improving the performance of the company, including:
 - a. Addressing internal weaknesses, such as the re-establishment of core business, liquidation, and organizational management improvement;
 - b. Maximizing internal strengths, such as by concentrating the business on highly prospective businesses, expanding markets by maintaining and finding new customers, and seeking new production techniques;
 - c. Addressing external threats, such as by improving the quality of products and services, improving the quality of human resources and improving the

- creativity and the activeness of marketing personnel in seeking new breakthroughs;
- d. Maximizing external opportunities, such as through mutually beneficial cooperation with similar or related companies.
- (2) Growing Strategy, is aimed at growing and developing company in accordance with the agreed size to achieve the long-term objectives of the company. BUMD is said to grow if the company managed to increase the followings; sales volume, market share, profits and assets of the company. Some actions that can be taken to keep the company growing include concentrating business on the representative products, expanding markets, developing new products, and horizontal and/or vertical integration.
 - (3) Restructuring Strategy, which can be performed through the strategic and operational approaches.

In strategic approach, there are some strategic errors occur, such as the inability of the company to meet the consumers' needs in accordance with its mission, therefore, it is necessary to conduct a thorough assessment of the business conducted for the changes and improvements (Lutfi *et al.*, 2016). Meanwhile, the operational approach is aimed to change the operation of the company without changing its business strategy. In this connection, the usual moves taken by the company for the maintenance of operation include (Kamaluddin, 2001): (a) Increasing the income earned by various business techniques, such as price reduction, promotion improvement, the addition and improvement in customer service, and the improvement in product distribution and quality (b) Savings. The costs that are not directly related to the primary operations of the company that make up the income, are usually the first choices to be reduced, such as administrative, research and development, and marketing costs.

6. Conclusions

1. The Regional Government-Owned Enterprises (BUMD) which have contribution to the Local Own-Source Revenue of the Provincial Government of North Sumatra are PT. Bank Sumut, PT. Kawasan Industri Medan (KIM) and PT. Askrida, while PT. Dirga Surya and PDAM Tirtanadi have not contributed their dividends yet to the Local Own-Source of the Provincial Government of North Sumatra. In addition to contribute its dividend, PT. Bank Sumut also distributed its profits in the form of Corporate Social Responsibility (CSR) Programs consist of Small and Medium Enterprise Empowerment, Public Facilities and Infrastructures, Healthcare, Social and Religion, Education, Arts and Culture, and Environment.
2. Strategic moves taken to increase the dividends of BUMD of North Sumatera Province are Company Exploiting Strategy, Company Growing Strategy and Company Restructuring Strategy.

3. The greater the Equity Capital of Provinces and Districts/Cities and the increase in other sources of Regional Revenue which have an affect on the Capital Structure of BUMD will have an effect on the Local Own-Source Revenue.

The suggestions based on the results of the research and discussion are as follows:

1. Equity Capital needs to be increased by the Districts/Cities in North Sumatera, as it has an effect on the Local Own-Source Revenue of the Regional Governments. With the increase of equity capital, it can ease the efforts of the regional governments to find its revenue that is not at the expense of the community.
2. For the Regional and Central Government Representatives, they need to carry out the legislative function in the regional government finance, because the attention to the provincial BUMD, especially the discussion of the budget related to additional capital, needs to be increased in the future.

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