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**STRATEGY IMPLEMENTATION AS INTERVENING FOR COMPANY’S RESOURCES AND REGULATIONS IN ORDER TO FORM BUSINESS PERFORMANCE**

**[STUDIES IN UNIT BUSINESSES OF PT PERTAMINA (PERSERO)]**

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BANDUNG**

**ABSTRACT**

Many concepts and research carried out on the implementation of the strategy, but has not been able to describe the integrative effectiveness of the strategy implementation Programme, Budget and procedures of the Business Performance generated. This study intends to fill the literature gap to produce a concept / model of a more integrative linking Company’s Resource, Regulatory, Strategy Implementation (Program, Budget, and Procedures) more effectively that can generate good business performance. The purpose of this study was to (1) Review of Company’s Resources, Regulatory, Strategy Implementation and Business Performance in Business Units of PT. Pertamina (Persero); (2) Analyze and prove that Company’s Resources and Regulatory Strategy Implementation effect on either partially or simultaneously; (3) Analyze and prove that Company’s Resources and regulation affect the Company’s business performance, both directly and through Strategy Implementation; & (4) Analyze and prove that Strategy Implementation affect the company’s business performance either partially or simultaneously. This research was conducted with descriptive and verification method. A census conducted involving 40 samples of business units in PT. Pertamina (Persero). Data obtained from the results of observations, questionnaires and interviews. Analysis and hypothesis testing are using the Partial Least Square (PLS).

**KEYWORDS**

strategy implementation, company resources, regulations, business performance.

**1. INTRODUCTION**

Pertamina as a large State-Owned Enterprise (SOE) which currently has assets of more than USD 40.88 Billion significantly affect the performance of SOE as a whole and also the State income from dividends. In the business sector of oil and gas in Indonesia, Pertamina is a market leader that has a very significant role both for the stability of the business sector and the economy in general. Therefore, it is very important to maintain and continue to increase the added value of the company in order to create a sustainable competitive advantage. This is certainly a major challenge for Pertamina in the future, primarily associated with the strategy, both at the macro and micro-level / companies.

Pearce and Robinson (2011) stated that the formulation of an effective and efficient strategy is the formulation that combines future-oriented perspective to the internal environment and the external environment. Companies often difficult to predict the future related to erratic changes of the external environment. On the basis of the correspondence between the resource or capability of the company to its environment can create strategies to generate competitive advantage and superior performance of an organization / company (Pearce and Robinson, 2011; Thomson, Peteraf, Gamble and Strickland, 2012; Wheelen and Hunger 2010).

In the perspective of management, the company in general often face the problem of implementation of the strategy has been determined. In carrying out its operational companies often are not integrated or do not align with strategy (Kaplan & Norton, 2004, 2006, 2008) because of internal and external factors. This often led to the achievement of the target company is not in accordance with the plan. As a lot of the framework in the preparation of the strategy, in fact often found that it is more likely to focus attention on the formulation of a strategy oriented than the effectiveness of the implementation of the strategy. Therefore, the existence of a concept based on empirical data to create a model of an effective strategy implementation is needed.

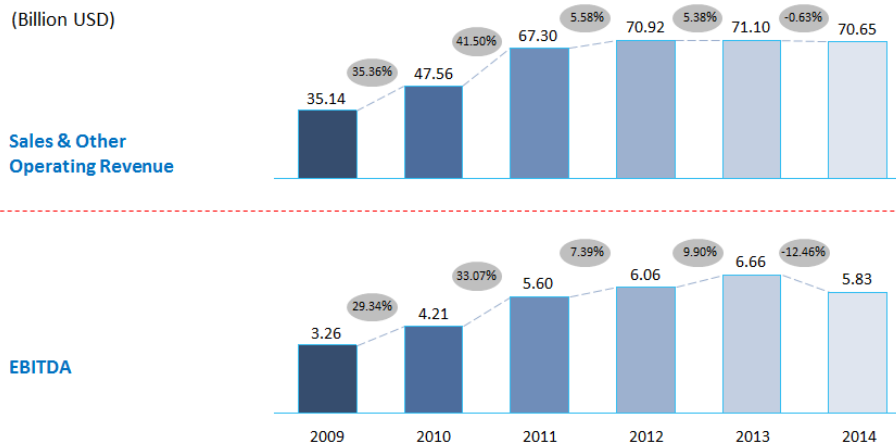
According to Thomas L. Wheelen, J. David Hunger (2010), strategy implementation includes three (3) aspects of the Program, Budgets and Procedures. The effective implementation is dependent on the integration strategy of the operation, as well as the human resources, structures and procedures, capabilities, budget and infrastructure are aligned with the strategy. (Thomson, Peteraf, Gamble and Strickland, 2012; Bossidy and Charan, 2002; Sushil, 2009; Richard L. Daft, 2010; Kaplan & Norton, 2004,2006,2008; Walker, 2009; Morgan, Levitt, and Malek, 2007). Concluded that effective implementation is meant here is the execution that can realize the performance of the project as planned, on time, budget and return (James P. Lewis, 2000).

In the initial study on the performance of PT Pertamina (Green Book 2009-2014) found that in general, the company's performance is still quite good, but the actual financial performance has not yet been achieved in accordance with the plan. Illustration of it is presented in the following figure below:

**FIGURE 1: CONSOLIDATED FINANCIAL PERFORMANCE PERTAMINA**

**FINANCIAL CONSOLIDATION 2009 - 2014**

(Billion USD)



As empirical data that the past performance of the investment program Pertamina projects generally average can be realized only about 60% of the target as the company's internal reports that are not published. Where realization of the project is the largest component of the company's business performance and growth. This is supported by statements Benko and McFarlan (2003) that the company's project portfolio encourage added value for the future. Striving for an optimal realization of the project is increasing is the most important thing in order to encourage the increase of the value-added companies.



## 2. RESEARCH QUESTION

Based on the background described above, the research questions in this paper can be stated as follows:

1. How Resources, Regulatory, Implementation Strategy and Business Performance in Business Units Pertamina?
2. How Resources and Strategy Implementation Regulations effect on either partially or simultaneously?
3. How Resources and regulations affect the business performance, both directly and through the Implementation Strategy?
4. How Strategy Implementation affect the company's business performance either partially or simultaneously?

## 3. COMPANY RESOURCES

As the study of theory, organizational resources is determined there are three types of physical assets, the assets of HR and organizational assets (physical capital resources, human capital resources, and organizational capital resources) (Barney, 1991; Wheelen and Hunger, 2012). Montgomery (2005: 30) suggests three types of resource companies, namely: tangible assets, intangible assets and organization capability. The temporarily the Hill and Jones (2004: 147) found two types of resource companies, namely: tangible assets and intangible assets. Resource Company in this respect Infrastructure, Capital, Organizational Culture, Leadership, Structure, Patents, System Information and Human Resources (Daft, 2010; Thomson, Peteraf, Gamble and Strickland, 2012), a company that is precious (valuable), rare (rare), it is hard to replicate (imperfectly limitable), and there is no substitute (Barney, 1991; Pearce & Robinson, 2011), it will be able to implement its strategy to achieve competitive advantage.

Resources and capabilities of the Company's resource very decisive advantages of the company and a source of core competencies to create competitive advantage and long-term role in supporting the competitiveness and viability of the company. So the company's resources are an important determinant of success or failure implementasi strategy / execution (Walker, 2009; Hart, 1995; Barney, 1991; Mahoney and Pandian, 1992; Sucherly, 2003).

## 4. REGULATIONS

Government regulations are external factors that affect the implementation of the strategy in the implementation of the company's business units Pertamina which includes approval, licensing and land acquisition. (Wheelen and Hunger 2010; Jennifer M. George and Gareth R. Jones, 2006; Pearce and Robinson, 2011; Andy 2006, Liisa Sallinen, Inkeri Ruuska and Tuomas Ahola, 2013; Regulation of central and local government)

External factors identified that the main things that affect the performance of the investment program projects are Approval, project permitting, and land acquisition. Approval is influenced by the authority to approve of oil and gas projects, namely SKK Oil and Gas, Ministry of Energy and shareholders, for example, regulation of the Minister of Energy and Mineral Resources No. 027 of 2006 on the management of the utilization of data obtained from the general survey, exploration and exploitation of oil and gas. Licensing related project with the Local Government where the project is located, as in the drilling project at the Banyu Urip field in Bojonegoro influenced the publication of Regulation No. 23 of 2011 on the construction of supporting facilities which will affect the time and cost of the project. While the acquisition of land or land acquisition follows the Act No. 2 of 2012 and Perpers No. 71 of 2012 which will be associated with the institution SKK Migas, BPN, Local Government and the Department of Forestry.

## 5. STRATEGY IMPLEMENTATION

Program is an activity or set of activities the company's business units Pertamina to resolve short-term planning or projects that make the implementation of the strategy can be implemented in the form of action that includes the purpose of the project / investment, work plans, monitoring and integrated investment portfolio. (Thomas L. Wheelen, J. David Hunger, 2010; Sushil, 2009; Peter, 2008; Gray and Larson, 2006; Gusman Nawanir, Lim Kong Teong and Siti Norezam Othman, 2013; Monique Aubry, He le'ne Sicotte, Nathalie Drouin, He le'ne Vidot-Delerue and Claude Besner, 2012; Taiwan Feng, 2013).

Budget is the allocation of funds for new activities of a program or project business units Pertamina company that makes the implementation of the strategy can be implemented which include the availability of budget, budget approval, and rewards and incentives (Thomas L. Wheelen, J. David Hunger, 2010; Sushil, 2009; Kaplan & Norton, 2006; Phyllis, Richard, Jag, 2004; Ning Hongyu, Zhou Mingjian, and Wen Qiang Lu Lique, 2012).

The procedure is the detail of the steps sequence from the technical details of an activity that must be performed on all programs Pertamina, which covers the structure, procedures and authority system, the process of investment approval, and payment processing. (Watson, 2005; Thomas L. Wheelen, J. David Hunger, 2010; Arthur A. Thompson, MA Peteraf, John E. Gamble and AJ Stricklan III, 2012; Sushil, 2009)

## 6. BUSINESS PERFORMANCE

The concept of organizational performance in general is based on the idea that the organization related to the productivity of its assets including human resources, physical capital and to achieve a common goal. The performance assessment is a periodic determination of the operational effectiveness of an organization, part of the organization and its employees by objectives, standards and criteria established in advance. Wheelen & Hunger (2012: 332) states that business performance can be measured by sales, market share and profitability.

Assessment of performance in this study refers PKPU emphasis on finance and markets. This is related to the uniformity of the indicators for the 40 business units. Assessment of financial performance is critical because it is the consequence of an economic decision taken and that the planning, implementation and evaluation of the implementation strategy that is reflected from the target can be measured by sales, profitability, ROI, or ROE.

## 7. DISCUSSION

From the initial assessment may be indicated that it was due to effective strategy implementation is still lacking, particularly in terms of the realization of investment projects Pertamina. (effective: the realization of the performance of the project according to plan, on time and on budget (Lewis, 2000). Morgan, Levitt, and Malek (2007), identifies that strategy execution is the result of the execution right of a set of project strategic to the right path. So there is only one way is to do it with a project portfolio management. Consistent with previous studies, stating that the company's project portfolio encourages added value for the future (Benko and McFarlan, 2003).

Companies in general often face the problem of implementation of the strategy has been determined. In carrying out its operational companies are often not integrated / align with the strategy because of internal and external factors. This often led to the achievement of the target company is not in accordance with the plan.

The basic elements of the implementation of the strategy is the Programme, Budget and procedures, where those three things depend on Resources and Capabilities of the company. Effective implementation of the strategy depends on integration with the operating strategy, as well as the people, culture, structure and procedures, capability, budget and infrastructure are aligned with the strategy. It was concluded that the implementation of an effective strategy is meant here is the execution that can realize the performance of the program or project as planned, on time, budget and return. Improving the effectiveness of the strategy implementation of investment projects can create competitive advantage for the organization.

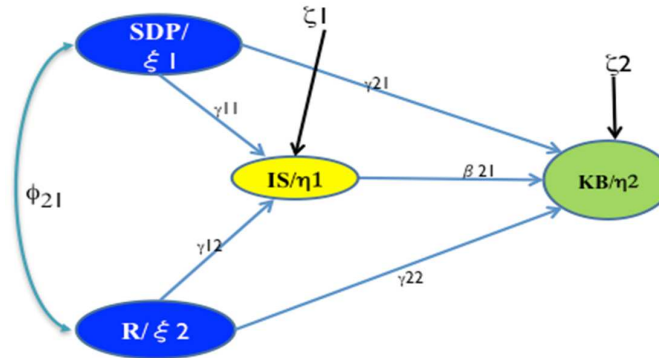
The method used in this dissertation to solve problems by using the Partial Least Square (PLS). PLS is an alternative method of analysis with Structural Equation Modelling (SEM) which is based on variance. This method uses the indicator or variables to see a strong correlation. The variables used were Exogenous latent variables consisting of Resource Companies, Regulatory, Implementation Strategy, and Business Performance

The analysis used in this study consists of two types, namely: (a) descriptive analysis, describe the characteristics of the studied variables and (b) verification analysis, to determine the relationship between variables through a hypothesis based on the data in the field.

Research is also done using, the PLS model, consists of two linear equations, namely, (1) structural equation (Structural Model) and (2) measurement model (measurement model).

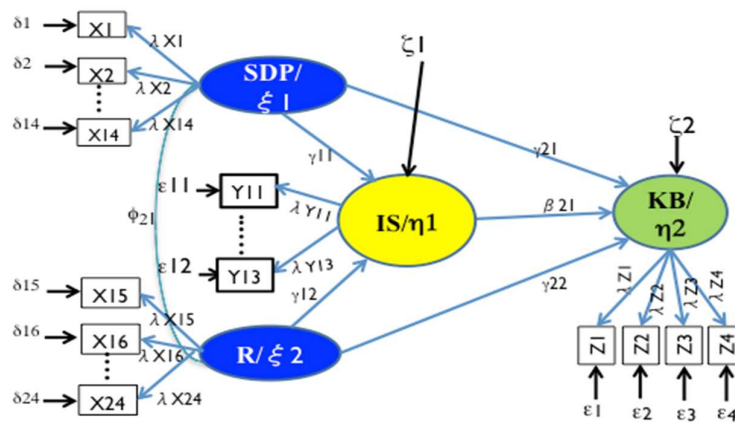
In general, structural equation using the framework of the relationship between the flow of latent variables based on the hypothesis proposition like in the picture below.

FIGURE 2: PATH DIAGRAM



Where SDP is a latent variable Company Resources, R is the Regulation, the IS is a latent variable Strategy Implementation, KB is a latent variable Business Performance. On the path diagram, the arrow represents the relationship between the latent variables (constructs). Latent variables in the path diagram is divided into two exogenous latent variables (ξ) and endogenous (η). This research on structural models, exogenous variables are Resources Company (SDP); Regulatory (R) and endogenous variables are the Implementation Strategy (IS); Business Performance (KB). In general, the path diagram is based on the hypothesis proposition like in the picture below.

FIGURE 3: RESEARCH MODEL PATH DIAGRAM



Based on the concept of research model can be formulated in mathematical form. Structural equation models (inner model) which connects the latent variables. The basic assumption of the PLS is all the information of the variable indicator / manifest aimed at latent variables. This has two implications. First, the PLS model does not involve a direct correlation between manifest variables. Second, the error measurement model of one block is assumed to be uncorrelated with the errors of measurement models of the other block.

8. CONCLUSION

Companies in general often face the problem of implementation of the strategy has been determined. In carrying out its operational companies are often not integrated / align with the strategy because of internal and external factors. This often led to the achievement of the target company is not in accordance with the plan.

The basic elements of the implementation of the strategy is the Programme, Budget and procedures, where those three things depend on Resources and Capabilities of the company. Effective implementation of the strategy depends on integration with the operating strategy, as well as the people, culture, structure and procedures, capability, budget and infrastructure are aligned with the strategy.

It was concluded that the implementation of effective strategies meant here is affected by the Resource Company and Regulations. The better the Enterprise Resource better the implementation of strategies that lead to better company performance. Similarly, the regulations, the more organized and clear rules are increasingly positive impact on company performance.

Improving the effectiveness of the strategy implementation of investment projects can create competitive advantage for an organization that could ultimately improve company performance.

Implementation of the strategy should always be linked to the value of the company and the drivers of cost (cost driver), where companies can compete with the value and driving costs the same but different whether or not the results that they produce.

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