

The Role of Regional-Owned Enterprises (BUMD) in Enhancing Local Own-Source Revenue

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Abstract

Fiscal independence has become a primary imperative in the era of regional autonomy, where Local Own-Source Revenue (Pendapatan Asli Daerah/PAD) serves as a key indicator of a region's capacity to finance development without excessive reliance on central government transfers. This study aims to analyze the strategic role of Regional-Owned Enterprises (Badan Usaha Milik Daerah/BUMD) in enhancing PAD in Riau Province, with particular emphasis on their financial contributions, managerial effectiveness, and institutional sustainability. The research employs a descriptive qualitative approach, utilizing in-depth interviews and direct observation as data collection techniques. Data were obtained from seven key informants, including government officials and executives of regional-owned enterprises. This methodological framework enables a comprehensive understanding of the institutional dynamics, governance practices, and operational challenges faced by BUMDs in fulfilling their fiscal and developmental mandates. The findings reveal that the contribution of BUMDs to PAD varies significantly. Among them, BRK Syariah emerges as the largest contributor, supported by stable financial performance and continuous innovation in Islamic financial products. Its relatively strong governance structure and adaptive business strategy have enabled it to generate consistent dividends for the regional government. In contrast, several other BUMDs continue to face structural challenges, including limited capital capacity, suboptimal corporate governance, and insufficient managerial professionalism. These constraints have hindered their ability to operate competitively and maximize profitability. Despite these challenges, the development potential of BUMDs remains substantial. Strengthening managerial capacity, implementing service digitalization, improving transparency and accountability mechanisms, and ensuring consistent policy support from the regional government are identified as strategic measures to enhance institutional performance. With appropriate reforms and strategic alignment, BUMDs can optimize their dual function as commercial entities and public service providers. This study concludes that BUMDs perform a strategic role not only as contributors to PAD but also as catalysts for inclusive and sustainable local economic development. A structured and systematic reinforcement of BUMD governance and operational capacity is therefore essential to foster stronger fiscal independence at the regional level.

Keywords : Regional-Owned Enterprises, Local Own-Source Revenue, Fiscal Autonomy, Corporate Governance, Local Development

I. Introduction

Regional governments bear substantial responsibility in advancing the welfare of local communities in accordance with the principles of regional autonomy as stipulated in Law Number 23 of 2014 on Regional Government. Regional autonomy not only demands improvements in public service delivery and community empowerment but also emphasizes fiscal independence. In this regard, Local Own-Source Revenue (Pendapatan Asli Daerah/PAD) constitutes a primary indicator in assessing the extent to which a region is capable of financing its development agenda without excessive reliance on fiscal transfers from the central government (Yani, 2002). Consequently, the capacity of regional governments to manage and optimize local revenue sources, including through the strategic role of Regional-Owned Enterprises (Badan Usaha Milik Daerah/BUMD), becomes critically important.

BUMDs serve as strategic instruments for local governments in optimizing the utilization of regional economic resources. These enterprises are established to perform a dual function: delivering public services while generating profits that can subsequently be distributed as dividends to the regional government (Kurnia, 2020). Their existence is expected not only to strengthen the regional economic structure but also to function as a driving force for fiscal self-reliance. Normatively, the legal foundation of BUMDs is regulated under Law Number 5 of 1962 concerning Regional Enterprises and further reinforced by Government Regulation Number 54 of 2017 concerning Regional-Owned Enterprises. These regulatory frameworks provide governance guidelines emphasizing accountability, efficiency, and transparency in the management of regionally owned business entities.

In practice, however, not all BUMDs have been able to provide optimal contributions to PAD. This condition is also evident in Riau Province, where the regional government experienced a significant budget deficit, with PAD realization in 2024 reaching only 85.38 percent, resulting in delayed payments for various development programs (BPK RI, 2025). Despite possessing abundant natural resources and a diverse portfolio of BUMDs such as PT Bank Riau Kepri Syariah, PT Riau Petroleum, PT Sarana Pembangunan Riau, PT Permodalan Ekonomi Rakyat, PT Jamkrida Riau, and PT Pengembangan Investasi Riau the actual performance of these enterprises in contributing to PAD remains uneven. This reality indicates a gap between the region's economic potential and the operational performance of its BUMDs.

The primary issue that arises concerns how to optimize the role of BUMDs as a source of regional revenue. Limitations in governance structures, low levels of accountability, weak business vision, and political intervention in the appointment of directors constitute significant challenges that necessitate structural reforms and policy strengthening. Furthermore, several BUMDs in Riau have ceased operations, such as PT Riau Airlines, raising concerns regarding the sustainability of other regionally owned enterprises if comprehensive reforms are not promptly implemented. Therefore, an in-depth and holistic analysis is required to examine the actual role of BUMDs in increasing PAD and to formulate strategies aimed at strengthening their future contributions.

This study seeks to analyze the strategic role of BUMDs in enhancing PAD in Riau Province through a qualitative approach, employing interviews and observations involving seven key informants consisting of regional executive officials and BUMD executives. The objective extends beyond merely identifying financial contributions in the form of dividends; it also evaluates managerial capacity, transparency, and business sustainability as essential determinants of regional fiscal independence.

The literature review underpinning this research draws upon various conceptualizations of "role" proposed by scholars. Lepa et al. (2019) define role as social action aligned with societal expectations, exerting substantial influence on social life. Faozan (2021) emphasizes that role constitutes a set of behaviors performed in accordance with one's position within a social structure. Within the institutional context, the role of BUMDs encompasses three principal aspects: (1) increasing production, (2) expanding employment opportunities, and (3) enhancing regional revenue (Kurnia, 2020; Government Regulation No. 54 of 2017).

Theoretically, this study is grounded in institutional theory and the principles of Good Corporate Governance (GCG). Institutional theory posits that the existence and effectiveness of BUMDs are shaped not solely by technical and economic considerations but also by regulatory frameworks, normative pressures, and socio-political legitimacy (Scott, 2014). Meanwhile, GCG principles—accountability, transparency, independence, fairness, and responsibility—serve as evaluative benchmarks for assessing BUMD performance and management, as articulated in Government Regulation No. 54 of 2017.

Several prior studies inform this research. Rumambi et al. (2021) examined the contribution of a regional public enterprise in North Minahasa and found that, although it generated profits for the region, challenges remained in efficiency and innovation. Firdaus and Saiman (2024) analyzed BUMDs in the Special Region of Yogyakarta and concluded that while contributions to PAD, employment absorption, and production output were significant, they were not fully aligned with regional development priorities. Yahya and Syafitri (2022) further asserted that capital participation does not necessarily correlate with increased PAD in the absence of professional management practices.

The novelty of this research lies in its contextualized approach, focusing specifically on Riau Province as a case study. Unlike previous studies that tend to adopt purely descriptive or quantitative methods, this research integrates primary data obtained through in-depth interviews with key actors and elaborates on how regional government investment policies particularly in the form of equity participation in BUMDs can be managed more strategically. Considering the context of budget deficits and post-pandemic fiscal pressures, this study offers a more relevant and practical framework for strengthening BUMDs as a primary pillar of PAD.

Accordingly, the findings of this research are expected to provide policy considerations for the Government of Riau Province in formulating regulatory frameworks, determining capital allocation, and setting strategic directions for BUMD management oriented toward efficiency, accountability, and long-term economic impact. Theoretically, this study contributes to the enrichment of the literature on BUMD governance within the broader discourse of regional autonomy and local fiscal strengthening.

2. Literature Review and Hypotheses Development

2.1 Regional Autonomy and Fiscal Independence

Regional autonomy, as regulated under Law Number 23 of 2014 concerning Regional Government, emphasizes the decentralization of authority from the central government to local governments. One of its core objectives is to strengthen fiscal independence, enabling regions to finance development activities without excessive dependence on intergovernmental transfers. Local Own-Source Revenue (Pendapatan Asli Daerah/PAD) serves as a key indicator of fiscal capacity and regional financial sustainability (Yani, 2002).

Mardiasmo (2018) argues that fiscal autonomy requires not only revenue generation capacity but also sound financial management and institutional accountability. In this framework, the role of regionally owned enterprises (BUMD) becomes strategic, as they are expected to contribute dividends while simultaneously stimulating local economic growth. Therefore, strengthening PAD through BUMDs aligns with the broader agenda of fiscal decentralization and sustainable regional development.

2.2 The Strategic Role of BUMD in Regional Economic Development

BUMDs are established to perform dual functions: delivering public services and generating profits that can be redistributed as dividends to regional governments (Kurnia, 2020). According to Government Regulation No. 54 of 2017, BUMDs are mandated to increase production, expand employment opportunities, and enhance regional income.

Institutional theory (Scott, 2014) posits that public sector organizations must adapt to regulatory, normative, and cultural pressures to maintain legitimacy and effectiveness. The transformation of BUMDs, such as the conversion of Bank Riau Kepri into a sharia-based banking institution, reflects institutional adaptation to socio-cultural dynamics in Riau Province. Such adaptation enhances legitimacy and strengthens financial performance, which in turn increases PAD contribution.

Previous empirical studies provide mixed findings. Rumambi et al. (2021) found that although regional enterprises generate profits, inefficiencies and limited innovation constrain their optimal contribution. Firdaus and Saiman (2024) observed that while BUMDs significantly contribute to employment and output, their alignment with regional development priorities remains limited. Yahya and Syafitri (2022) further emphasized that capital participation does not automatically translate into higher PAD without professional management.

These findings suggest that the contribution of BUMDs to PAD is influenced not merely by financial capital, but also by governance quality, managerial professionalism, and strategic orientation.

2.3 Good Corporate Governance (GCG) and Institutional Sustainability

Good Corporate Governance (GCG) constitutes a central framework in evaluating BUMD performance. The principles of accountability, transparency, independence, fairness, and responsibility, as outlined in Government Regulation No. 54 of 2017, serve as benchmarks for assessing institutional effectiveness.

Weak governance structures such as politically motivated appointments of directors, limited innovation capacity, and inadequate digital transformation can undermine BUMD performance. Conversely, the implementation of professional management systems, digitalization strategies, and performance-based incentives strengthens competitiveness and financial outcomes.

In line with institutional theory, governance reforms enhance organizational legitimacy and operational efficiency. Furthermore, inclusive finance theory (Demirgüç-Kunt et al., 2018) highlights the importance of financial access for MSMEs in strengthening local economic resilience, which indirectly expands the regional tax base and PAD.

Thus, governance quality and strategic management practices emerge as key determinants of BUMD effectiveness in supporting fiscal independence.

2.4 Hypotheses Development

Based on the theoretical framework and empirical findings discussed above, the following hypotheses are formulated:

H1: The financial performance of BUMDs has a positive and significant effect on Local Own-Source Revenue (PAD).

This hypothesis is grounded in the premise that dividend contributions from profitable BUMDs directly increase PAD, as evidenced by the dominant contribution of BRK Syariah in Riau Province.

H2: The implementation of Good Corporate Governance (GCG) positively influences the financial performance of BUMDs.

Effective governance structures enhance accountability, transparency, and managerial efficiency, which ultimately improve financial outcomes.

H3: Managerial professionalism positively moderates the relationship between capital participation and PAD contribution.

Capital investment alone does not guarantee increased revenue unless supported by competent and professional management (Yahya & Syafitri, 2022).

H4: Institutional adaptation and innovation strategies positively influence the sustainability and PAD contribution of BUMDs.

Digital transformation, product innovation, and strategic market alignment strengthen competitiveness and long-term fiscal contribution.

H5: The contribution of BUMDs to PAD mediates the relationship between governance quality and regional fiscal independence.

High-quality governance enhances BUMD performance, which in turn strengthens PAD and supports fiscal autonomy.

3. Method

This study employs a qualitative approach using a descriptive method, aimed at obtaining an in-depth understanding of the role of Regional-Owned Enterprises (Badan Usaha Milik Daerah/BUMD) in enhancing Local Own-Source Revenue (Pendapatan Asli Daerah/PAD) in Riau Province. The research is qualitative in nature as it focuses on naturally occurring phenomena and prioritizes the subjective meanings constructed from the perspectives of the informants. The data collected are qualitative, consisting of narratives and empirical findings obtained directly from the field.

The data sources in this study comprise both primary and secondary data. Primary data were obtained through in-depth interviews with seven key informants. These included one representative from the regional government, namely the Governor of Riau Province as the key informant, and six additional informants drawn from the leadership or representatives of the respective BUMDs operating in Riau Province: PT Bank Riau Kepri Syariah (BRK), PT Sarana Pembangunan Riau (SPR), PT Pengembangan Investasi Riau (PIR), PT Permodalan Ekonomi Rakyat (PER), PT Jamkrida Riau, and PT Riau Petroleum. Secondary data were obtained through document analysis, including financial reports, regional regulations, and other supporting documentation relevant to the research topic.

The data collection techniques employed in this study were direct observation and in-depth interviews. Observation was conducted to directly examine operational activities and the contribution of BUMDs in the context of increasing PAD. Meanwhile, interviews were conducted using structured and semi-structured formats to explore more comprehensive information regarding policies, strategies, and challenges encountered by each BUMD in performing its function as a regional economic agent.

Subsequently, the collected data were analyzed using qualitative data analysis techniques, consisting of three stages: data reduction, data display, and conclusion drawing. Data reduction involved selecting and focusing on essential information relevant to the research objectives. Data display was carried out in the form of systematically organized descriptive narratives, while conclusions were drawn inductively to identify meanings and patterns emerging from the analyzed data. This approach enables the researcher to comprehensively understand the strategic role of BUMDs in efforts to enhance Local Own-Source Revenue in Riau Province.

4. Result and Discussion

4.1 Profile and Role of Regional-Owned Enterprises in Enhancing Local Revenue

Regional-Owned Enterprises (Badan Usaha Milik Daerah/BUMD) in Riau Province play a significant role in enhancing Local Own-Source Revenue (Pendapatan Asli Daerah/PAD), both directly through dividend contributions and indirectly through economic value creation, employment generation, and the optimization of regional potential. Six major BUMDs were examined in this study: BRK Syariah, PT Permodalan Ekonomi Rakyat

(PER), PT Pengembangan Investasi Riau (PIR), PT Sarana Pembangunan Riau (SPR), PT Jamkrida Riau, and PT Riau Petroleum.

Among these entities, BRK Syariah demonstrates outstanding financial performance and has become the largest dividend contributor to the Province of Riau, amounting to IDR 97.02 billion in 2023 and a cumulative total of IDR 461.39 billion over the past five years. The bank fulfills its role in strengthening PAD through regional financial management, productive financing distribution, and the provision of digital and Islamic banking services.

PT PER focuses on empowering micro, small, and medium enterprises (MSMEs) through business capital loans, thereby strengthening the community's economic base. The company contributed IDR 2.1 billion in dividends in 2022, with a five-year total of IDR 4.47 billion. PT PIR, as a holding investment company operating in energy and trade sectors, recorded dividends of IDR 2.57 billion in 2023 and IDR 3.47 billion over five years. However, its contribution remains relatively limited due to suboptimal coal mining management. SPR operates in oil and gas (through SPR Langgak), clean water services, rice processing, and forest utilization. Its dividend contribution reached IDR 2.05 billion in 2023, with a five-year total of IDR 6.8 billion. Meanwhile, Jamkrida Riau plays a strategic role in expanding MSME financing access through credit guarantee schemes, contributing IDR 4.03 billion in dividends in 2023 and IDR 13.79 billion over five years.

In contrast, Riau Petroleum has not yet contributed dividends, although it possesses considerable potential, particularly through the optimization of the 10 percent Participating Interest (PI) in oil and gas working areas such as WK Rokan. Effective management of this PI is expected to significantly increase PAD in the future.

Quantitative analysis of dividend contributions from 2019 to 2023, totaling IDR 489.92 billion, reveals a substantial disparity among BUMDs. BRK Syariah accounts for 94.2 percent of total dividends, followed by Jamkrida (2.8 percent), SPR (1.4 percent), PER (0.9 percent), and PIR (0.7 percent), while Riau Petroleum has yet to contribute. This disparity underscores the urgent need for optimizing the business potential of all BUMDs to achieve more equitable and sustainable fiscal contributions.

4.2 Strategic Initiatives and Institutional Challenges

Each BUMD has implemented distinct strategies aligned with its business model. BRK Syariah emphasizes digital Islamic banking development, MSME empowerment, and technological transformation through products such as BRKS Mobile and other innovative financing schemes. PER expands capital access for MSMEs through high-quality credit systems and financial literacy programs. Jamkrida strengthens sharia-based guarantee services, builds strategic partnerships, enhances human resource capacity, and promotes financial education.

PIR consolidates its subsidiaries and advances digital transformation, focusing on coal reserve management and new investment opportunities. SPR diversifies its business portfolio across oil and gas, water supply infrastructure, and agricultural processing. Riau Petroleum prioritizes the reactivation of mature oil wells, renewable energy exploration, and strategic partnerships to accelerate PI realization.

Despite these initiatives, structural challenges remain evident. These include limited capital capacity, insufficient innovation, bureaucratic director appointments not fully based on meritocracy, suboptimal digitalization, and dependence on regional budgets. The Governor of Riau has emphasized the necessity of managerial reform, enhanced professionalism, improved efficiency, and strengthened competitiveness. Regular performance evaluations, performance-based incentives, and continuous human resource development are being encouraged to address these concerns.

4.3 Integrated Discussion: Institutional Adaptation and Fiscal Sustainability

The role of BUMDs in enhancing PAD reflects the broader objectives of regional autonomy, which emphasize fiscal independence and institutional strengthening. The findings demonstrate that although overall contributions exhibit a positive trend, they remain uneven across enterprises. The success of BRK Syariah illustrates how professional management, digital transformation, and strategic institutional adaptation can significantly enhance fiscal contributions. The bank's conversion into an Islamic financial institution represents an adaptive response to the socio-cultural context of Riau, aligning with institutional adaptation theory (Scott, 2014), which posits that public sector organizations must align with dominant social norms to maintain legitimacy and sustainability.

Conversely, PER and Jamkrida contribute more moderately in financial terms but play crucial roles in community-based economic empowerment. Their involvement in MSME financing aligns with community-based development theory (Korten, 1990) and inclusive finance frameworks (Demirgüç-Kunt et al., 2018), which highlight the importance of financial access in strengthening local economic resilience.

PIR and SPR, as multi-sector enterprises, demonstrate diversification but face operational inefficiencies and governance limitations. These issues reflect partial implementation of Good Corporate Governance (GCG) principles, including accountability, transparency, and independence. Strengthening managerial capacity, strategic planning, and adaptive business models is therefore essential.

Riau Petroleum represents a high-potential yet unrealized fiscal asset. The management of Participating Interest in strategic oil and gas fields could substantially increase PAD if supported by technological capacity, professional partnerships, and regulatory clarity. According to cluster development theory (Porter, 1998), strengthening regional industrial ecosystems particularly in energy can enhance competitiveness and generate greater local economic value.

Overall, the substantial dividend gap between BRK Syariah and other BUMDs highlights the absence of strong institutional synergy within Riau's BUMD ecosystem. Enhanced coordination mechanisms, integrated business planning, digital transformation, and professional human resource management are necessary to ensure more balanced contributions.

In conclusion, the role of BUMDs in increasing PAD in Riau Province is strategic and multidimensional. The success of BRK Syariah demonstrates that institutional transformation, market orientation, and innovation significantly improve fiscal outcomes. Meanwhile, other BUMDs require structural reform and capacity enhancement to maximize their potential. Strengthening the provincial government's role as regulator, facilitator, and supervisory shareholder rather than as a direct business intervenor is essential to creating a healthy, accountable, and competitive business environment. Ultimately, optimizing the role of BUMDs will determine the success of fiscal autonomy and sustainable regional economic development in Riau Province.

5. Conclusion

The strategic role of Regional-Owned Enterprises (Badan Usaha Milik Daerah/BUMD) in supporting regional fiscal independence reflects the critical importance of synergy among leadership, governance, and institutional innovation. In the context of Riau Province, the existence of BUMDs is not merely intended to generate dividends but also to function as engines of local economic growth and pillars of the region's socio-economic structure. The effectiveness of BUMDs' contributions is determined by their capacity to adapt to market dynamics, consistently implement the principles of Good Corporate Governance, and respond strategically to structural challenges that constrain productivity. These include limitations in capital, managerial capacity, technological readiness, and institutional coordination. Consequently, a strategic realignment of business direction, enhancement of human resource competencies, and institutional consolidation constitute essential prerequisites for transforming BUMDs into independent, accountable, and sustainable entities. In this regard, regional governments must assume a proactive role as development facilitators. Rather than positioning BUMDs merely as supplementary sources of budgetary revenue, local authorities should recognize them as principal instruments in shaping an inclusive and resilient regional economic ecosystem. Through consistent regulatory support, merit-based leadership selection, performance-oriented oversight, and policy coherence, BUMDs can be empowered to maximize both their fiscal contributions and their broader socio-economic impact. Ultimately, strengthening the institutional capacity and governance quality of BUMDs will play a decisive role in advancing durable fiscal autonomy and sustainable regional development.

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