

State-Owned Enterprise (SOE) Holding in the Perspective of Corporate-Level Strategy

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Abstract: The holding concept for streamlining the number of State-Owned Enterprises (SOEs; BUMN) in Indonesia has been initiated since the economic crisis in 1998. The idea of SOE holdings (SOEHs) by grouping SOEs into industries was raised to create strong SOEs and increasingly focus on developing their business from upstream to downstream. As of August 2022, 16 SOEHs have been formed. SOEH is part of a multi-business company, namely a company consisting of two or more subsidiary companies (strategic business unit). In contrast to conglomerate companies, SOEHs in Indonesia lead companies with relatively the same core business or in the same business sector, not diversifying unrelated to their business sector. In a multi-business company, a corporate-level strategy applies, where a company that acts as the parent will determine the directional strategy, portfolio strategy, and carry out the parenting strategy. The parent company's contribution to the positive performance of subsidiary companies is known as value creation, the result of parenting advantages. The parenting advantage for a multibusiness company is similar to a competitive advantage in a single company. Thus the SOE's holding as parent company plays an important role in value creation in multibusiness companies through its influence on subsidiary companies.

Keywords: State-Owned Enterprise, holding company, corporate strategy, parent company

1. Introduction

State-owned Enterprise (SOE) is one of the actors in Indonesian economics scheme playing an important role to perform national economy to materialize community welfare as mandated by the 1945 Constitution. Article 2 of the Laws of the Republic of Indonesia Number 19 of 2003 on State-owned Enterprise stated that SOEs have the aims and objectives to (1) contribute to the development of national economy in general, and state revenue in particular; (2) seek profit; (3) perform public services to provide high-quality and sufficient goods and/or services to fulfill people's necessities; (4) pioneer business activities that cannot be conducted by private and cooperative sectors; (5) actively guide and assist small enterprises, cooperatives, and the communities with limited access.

SOEs in Indonesia are incorporated in two forms: (a) Limited Liability Company (LLC, *Perusahaan Perseroan/Persero*) as defined in Government Regulation Number 12 of 1998 on Limited Liability Company (Persero); and (b) Public companies (*Perusahaan Umum/Perum*) as defined in Government Regulation No. 13 of 1998 on Public Company (Perum). As enterprises, the capitals of which are owned, in whole or in part, by the state under the mechanism of direct contribution of allotted state asset. *Persero* is a Limited Liability Company with its entire capitals or at least 51% of them are owned by the Republic of Indonesia, aimed at seeking profit to improve the values of business entity. Examples of *Persero* are PT Pertamina (Persero), PT Bank Mandiri (Persero) Tbk, PT Kimia Farma Tbk, PT Telkom Indonesia (Persero) Tbk, PT Kereta Api Indonesia (Persero), and many others. Meanwhile a *Perum* has the purpose and objective of running a business aimed at public benefit in the form of providing quality goods and services at prices that are affordable to the public according to the principles of healthy management of business entity. Examples of such companies are Perusahaan Umum DAMRI (Djawatan Angkoetan Motor Repoeblik Indonesia) Perum Damri, Perusahaan Umum Badan Urusan Logistik (Perum Bulog), Perusahaan Umum Percetakan Uang Republik Indonesia (Perum Peruri), Perusahaan Umum Lembaga Kantor Berita Nasional Antara (Perum Antara), Perusahaan Umum Perumahan Nasional (Perum Perumnas), and several others.

Regulation of Minister of SOEs Number PER-04/MBU/03/2021 dated March 29, 2021 on the Organization and Work Arrangement of the Ministry of SOE, classified SOEs into 12 clusters, i.e.: Tourism and Supporting Services; Telecommunication and Media; Energy, Oil, and Gas; Mineral and Coal; Agriculture and Forestry; Food and Fertilizer; Healthcare; Insurance and Pension Fund; Financial Services; Infrastructure Services; Logistics Services; and Manufacture. SOEs clusterization is developed based on their value chains and core businesses.

One measure of the contribution of SOEs to sustainable economic development is through the contribution of Dividends, Taxes, and Non-Tax State Revenues (NTSR). In the last 10 years (2011-2020), SOEs have deposited Dividends, Taxes, and NTSR in the amount of IDR 3,295 trillion. With details of the

achievement of Taxes of IDR 1,872 trillion, Other NTSR of IDR 1,035 trillion and Dividends of IDR 388 trillion. On a consolidated basis, revenue in 2020 and 2021 recorded a decline compared to 2019 (Table 1). COVID-19 resulted in a decline in revenue across all clusters, with the greatest impact on the Tourism and Support Services, Infrastructure, and Logistics clusters.

Table 1.
Contribution of Indonesia SOEs 2015-2021 (in Trillion Rupiah)

NO	KETERANGAN	2015	2016	2017	2018	2019	2020	2021*
1	ASSETS	5760	6473	7210	8186	7773	8312	8767
2	EQUITY	1991	2257	2380	2580	2493	2475	2537
3	NET PROFIT	149,77	176,18	186,39	185,67	125	13	61
4	CAPEX	221	266	315	448	361	278,9	317,33
5	FINANCIAL CONTRIBUTION (Dividends, Taxes, Non-Tax State Revenue)	303	309	354	411	421	377	360,82

Notes:

*As September 2021

In 2020 and 2021 due to the COVID-19 Pandemic, there was a decrease in the net profit and total contribution of SOEs to state revenues when compared to 2019.

Source: [20]-[21]-[22]-[23]

As of September 2021, the total market capitalization of SOEs listed on the IDX was recorded at IDR1.744 trillion for 35 SOEs. From the distribution of clusters, banking clusters make the largest contribution to the market capitalization of SOEs (total IDR 1,007 trillion). The top five SOEs with the largest market capitalization are BRI (IDR475 trillion), Telko IDR365 trillion), Mandiri (IDR287 trillion), BNI (IDR100 trillion) and BRIS. Performance in 3Q 2021 market capitalization of SOEs (total IDR 1,007 trillion). The top five SOEs with the largest market capitalization (IDR82 trillion) with an aggregate capitalization of IDR1,312 trillion. Implementation of the corporate action merger of SOE Syariah Banks in February 2021, namely Bank Syariah Mandiri, BRI Syariah, and BNI Syariah now becoming Bank Syariah Indonesia (BSI) / (BRIS). The corporate action for the merger of Islamic Banks in the 3Q 2021 performance led to an increase in the overall market capitalization of BRIS from the pre-merger position of IDR27 trillion to IDR83 trillion as of September 2021.

During the reformation period, the establishment of Ministry of SOE in 1998 placed SOEs as corporates that are isolated from political interests and bureaucratic practices. Thus, to strengthen SOEs reformation, President BJ Habibie initiated in 1999 eight SOEs foundations as SOEs Master Plan 2000-2005.

During President Susilo Bambang Yudhoyono administration, the master plan was adjusted into SOEs Revitalization Master Plan 2005-2009. This master plan centered at the effort to develop competitive SOEs for the future, breaking through the limitation of middle-sized multinational companies to have defined core competence and to be one of the leading companies in the world. It also stated that the government would enforce several strategic policies to improve SOEs' performance. Among the ways are SOEs restructurization into stand-alones, merger, establishment of holding company, divestment, and liquidation.

SOE Master Plan 2010-2014 is an upgrade to the previous 2005 document issued by Ministry of SOE. This master plan specifies policies, programs, fostering, and other specific activities conducted by the ministry in restructurization, profitization, and privatization. Restructurization or escalation of competitive position of the companies by improving business focus, enhancing business scale, and creating core competence. Profitization is achieved by aggressively improving company efficiency to obtain optimal company profits and values. The last steps privatization by increasing the distribution of ownership to the society and other investors for funding access, market, technology, and global competitive capability.

One of the method for restructurization for efficiency in policy control and strengthening the chains of activities is establishing a holding company. Holding company establishes a new legal entity as a symmetrical control relation for two or more SOEs. Prior to the enactment of Government Regulation Number 72 of 2016, SOE holding was established in concordance with Article 2 paragraph (2) of Government Regulation Number 44 of 2005, where State's shares in SOEs are classified as other type of state assets. Upon the enactment of Government Regulation Number 72 of 2016, SOE holding was established under the mechanism of transferring State's share in the SOEs to establish a subsidiary to another SOE holding company, the latter of which becomes holding parent owned 100% by the State.

SOE Master Plan 2015-2019 was released during President Joko Widodo (Jokowi) administration. SOEs have strategic role as the agents of development to support the realization of government programs. This is in line with the mandate of Laws Number 19/2003 on State-owned Enterprise, regarding the importance of SOEs' role in national economy to achieve people's welfare. With SOEs' participation, it is possible to materialize the hope of Indonesia to be the "Regional Economic Powerhouse". Therefore, the Ministry of SOEs developed achievements strategy in the form of roadmap by means of four strategic pillars: synergy among SOEs, downstreaming and local content, integrated regional economic development, and financial independence and value creation. In restructurization, the organization of SOEs is focused on SOEs strengthening under the schemes of standalone, merger/consolidation, and holding to create optimal synergy.

In August 2020, Regulation of Minister of SOE of the Republic of Indonesia Number Per - 8/Mbu/08/2020 Was issued regarding strengthening business focus oriented at enhancing growth, developing national ecosystem through synergy among private sectors, SOEs, and foreign actors, as well as inter-SOEs synergy oriented at value creation. The Ministry of SOE have defined nine strategic goals to be achieved in 2024. They are strategic goals to realize SOEs' independence and corporatization, that are classified further into: (1) increase of SOEs' governance as corporates; and (2) strengthening of SOEs' capacity. In addition, there are also strategic goals to improve SOEs' superiority and competitiveness, that are classified further into: (1) improvement of SOEs' competitiveness; and (2) world-class superior SOEs.

Afterwards, in 2020-2024 the government will formulate a Draft of Government Regulation on the establishment of SOE holding. The urgency of SOE holding establishment is to optimize the role of SOEs as development agent in supporting government programs, by means of inter-SOEs synergy, downstreaming and improvement of local contents, integrated development of regional economy, and financial independence (value creation). It is also expected that it can significantly increase SOEs' total assets.

Large-scale investment and national interest are the expected achievements from the establishment of sector-based SOE holdings. Nine holdings are projected to be established during the period of 2020-2024, which are in the sectors of pharmacy, insurance, survey service, food industry, manufacturing industry, defense industry, media industry, harbour industry, transportation and tourism services.

Establishment of sector-based holdings by the Government of Indonesia is aimed at expanding investment and improving inter-SOEs synergy. Holding company can prevent unhealthy competition to fight over market share and expand together under unified control of a parent company. Up to August 2022, there are 16 SOE holdings (two in processes) (Table 2). There are several business sectors still under the process of holding establishment, i.e. housing, banking and financial service, maritime, infrastructure, national publishing and news corporation.

Table 2
 Sectors and Holdings of SOEs in Indonesia

NO	SECTOR	NAME OF HOLDING COMPANY
1	Telecommunication & Media	PT. Telkom Indonesia (Persero), Tbk. (Government Regulation No. 25 of 1991)
2	Fertilizer	PT Pupuk Indonesia (Persero) (Government Regulation No. 28 of 1997)
3	Cement	PT Semen Indonesia (Persero) Tbk (Government Regulation No. 27 of 1998)
4	Plantation	PT Perkebunan Nusantara III (Persero) (Government Regulation No. 72 of 2014)
5	Forestry	Perum Perhutani (Government Regulation No. 73 of 2014)
6	Mining (MindId)	PT Indonesia Asahan Aluminium (Persero) (Government Regulation No. 47 of 2017)
7	Oil & Gas	PT Pertamina (Persero) (Government Regulation No. 6 of 2018)
8	Pharmaceutical	PT Bio Farma (Government Regulation No. 76 of 2019)
9	Insurance & Guarantee	PT Bahana Pembinaan Usaha Indonesia (Government Regulation No. 20 of 2020)
10	Hospitality & Supports (In Journey)	PT Aviassi Pariwisata Indonesia (Persero) (Government Regulation No. 104 of 2021)
11	Survey Services (IdSurvey)	PT Biro Klasifikasi Indonesia (Persero) (Government Regulation No. 66 of 2021)

12	Ultra Micro (Umi)	PT Bank Rakyat Indonesia, Tbk. (Persero) (Government Regulation No.73 of 2021)
13	Food (Food Id)	PT Rajawali Nusantara Indonesia (Persero) (Government Regulation No. 118 of 2021)
14	Defense Industry (DefendId)	PT LEN Industri (Persero) (Government Regulation No. 5 of 2022)
15	Hotels	PT WIKA Realty (Persero) (In process)
16	Hospitals	PT Pertamedika IHC (In process)

Source: [20]-[21]-[22]-[23]

In establishing a holding, the government determines the type of holding to be selected for each sector based on company necessity and condition. There are two types of holding. The first one is operating holding, defined as a type of holding establishment with parent company to conduct managerial function and operational activities together with the subsidiaries. For example: PT Perkebunan Nusantara III (Persero) as the parent company of SOEs in agricultural sector, and Perum Perhutani as the parent company of SOEs in forestry sector. The second is strategic holding, where the parent company only conducts managerial functions, without interfering the subsidiaries' operational activities. For example: PT Pupuk Indonesia (Persero) as the parent company of SOEs in fertilizer sector, and PT Semen Indonesia (Persero) as the parent company of SOEs in cement sector.

Establishing a SOE holding is not an easy task. It requires comprehensive study to determine which parent company qualifies to be a part of national strategic project. Coordinative strategies by the Ministry of Finance, Ministry of SOE, and related SOEs are required to determine the parent. The government takes Temasek Holding (Private) Limited, or simply Temasek, as a reference of holding. Temasek is a Singaporean state holding company owned by the Government of Singapore. Incorporated in 25 June 1974, Temasek owns and manages a net portfolio of S\$403 billion as of 2022. Another example is a Malaysian state holding company, Khazanah National Berhad. Incorporated in 3 September 1993 as a public limited company, Khazanah manages a net portfolio of US\$ 30.5 billion as of 2021.

2. Corporate-Level Strategy

2.1 SOE Holding and Multibusiness Corporation

SOE holdings in Indonesia lead multibusiness corporations comprising of subsidiaries or strategic business units. Multibusiness corporations are companies owning and managing numerous other companies in various business lines [1]. Such corporations continue to grow, creating more massive and significant values compared to their costs and investments to operate [2]-[3]. The growth has substantial benefit.

Multibusiness corporations led by SOE holding are different from single or sole corporations. One of the differences is their capability to create more significant values, instead of merely aggregating values from their strategic business units [2]-[3]-[4]. The values serve as the foundation for multibusiness corporations to enhance their business scale.

The growing business scale of companies under SOE holding generates positive impacts to increase not only the bargaining power against suppliers and distributors [2]-[5], but also the capability to gather resources [5]-[6]. The capability to acquire other companies also sees an improvement [6]-[7]. For example in July 2022, Temasek acquired Elements Materials Technology (Elements), a UK-based world-class testing, inspection and certification company. This US\$ 7 billion worth acquisition will potentially boost Temasek annual revenue by US\$ 1 billion from 200 laboratories in 30 countries.

Business scale improvement of multibusiness corporations will also improve business units' resilience when operating in a disadvantageous industry [2], and when facing external crisis in the environment [5]-[6]-[7]. A study reveals that business growth creates positive image of the executives, particularly the directors of multibusiness corporations, particularly in the point of view of internal and external stakeholders [8]. Such corporations grow due to the abundance of opportunities for their executives to enhance their careers, powers, and incomes [9]-[10]. The latter encourages most multibusiness corporations to retain their devoted executives. For the Ministry of SOEs, this reason is already included in the Strategic Planning of the Ministry of SOEs of 2020-2024, to improve human resources quality in the SOEs, to further manage the companies with wider span of control and those that are adaptive to digital-based fast changes, as well as competent in managing business regionally.

2.2 Role of Holding as Parent Company

The growth of multibusiness corporations is inseparable from the role of parent company. Parent company plays its role as investor who emphasizes on the highest profit from its subsidiaries, with little awareness of the subsidiaries' capabilities to manage their businesses [11]-[12]. This type of parent company generally has a number of subsidiaries but with minor and relatively small shares of ownership.

Multibusiness corporation as parent company having majority shares of ownership in its subsidiaries certainly expects for the subsidiaries to excellently manage their businesses. Prior studies discovers that parent company must provide positive and better influence to its subsidiaries than competitor parent company, i.e. parent company of multibusiness corporations that potentially acquire the subsidiaries[1]-[4].

Parent company is established because the group of strategic business units under the same ownership requires management. A study indicated that parent company contributes to approximately 1-2 percent of benefit generated from each strategic business unit or subsidiaries [13]. As a matter of fact, several cases of contribution from parent companies amount to above 15 percent [11]-[14]-[15].

The contribution of SOE holdings to the subsidiaries' positive performance or profit, known as value creation resulted from parenting advantage [1]-[4]-[15]. The advantage of parenting for multibusiness corporations is similar to competitive advantage in sole corporation. Indeed, parent company plays an important role in value-creation through its influence towards the subsidiaries.

There are three conditions where SOEs can influence strategic business units in value creation. First, unsatisfying-yet-amendable performance of the subsidiaries [1]-[13]. Subsidiaries with optimum performance do not require parent company. Thus, SOE holding can influence its subsidiaries to create value under a parenting opportunity.

Second, SOE holding as a parent company must have the required capability or resource to improve its subsidiaries' performances [3]-[13]. Consequently, parenting opportunity can then be greatly utilized by parent company and its subsidiaries to create values.

Third, as a parent company, SOE holding must understand critical success factors of the subsidiaries [4]-[13]. Parent company can thus influence its subsidiaries using the right method and at the right points. Without appropriate condition, parent company might be unable not only to influence its subsidiaries in value creation, but also to maintain them [4]-[13]. As pointed out previously, parenting fit of a parent company to create values for the corporate can only be realized under the presence of three prior conditions that are greatly utilized by both parent company and its subsidiaries [1].

2.3 Compatibility of Parenting by Parent Company

Prior studies suggest four tasks of a parent company in a multibusiness corporations. The first is leadership, defined as provisioning of strategic directions which serve as guidance for all its subsidiaries [6]-[8]-[11]-[12]. President Joko Widodo stressed the importance of building professionalism and basic values in the leaders of SOEs. According to him, the president directors of SOEs are selected people who are expected to be confident in facing competition both nationally and globally. As part of efforts to ensure the selection of professionals as directors and senior executives in SOEs, the Ministry of SOEs implements a rigorous assessment in collaboration with several leading assessment institutions in Indonesia.

Second is business portfolio management, meaning to evaluate portfolio effectiveness in generating as much benefits as possible for shareholders in the long run [11]-[16]-[17]. This should not be difficult for holding companies to do because all SOE holdings in Indonesia lead business groups with related diversification. However, a strategic issue that needs to be considered is portfolio management under subsidiary companies.

Third is allocation of resources to subsidiaries [2]-[6]-[9]. This task highly depends on parent company's excellence in determining which subsidiary to receive resources including their amount and forms, as well as in their contractual relationship with executives at the subsidiaries.

The fourth is administrative tasks within the internal department of parent company. They include organizing administrative system as well as implementing and controlling the operations of parent company [9]-[12]-[16]. A study reveals that parent company can be small-sized with under 100 employees, but can also be massive with more than 1000 employees to manage administrative aspects and corporate-level control [16]-[17]. Parent company's size is mainly determined by the degree of decentralization in functional activities, such as finance, human resources, R&D and marketing by the company [9]-[11]. With high degree of decentralization in such activities, parent company's size is unnecessary to be large. Value creation can be conducted by parent company when all four tasks above are well-managed.

Parent company's characteristics influence its management (style). In terms of leadership, for example, such management is influenced by the characteristics of its CEO [8]. leadership background and style of the company's executives [6]-[12], organizational culture [7], and past experiences of the multibusiness corporations [11]-[19]. Competence and background of parent company's human resources also influence the

quality of administrative management tasks [4]-[18]-[19]. Additionally, parent company's structure, system and process influence the company's effectiveness in providing strategic directions, portfolio management, and resources allocation [9]-[16].

There are three styles of corporate parenting by parent company towards its subsidiaries [4]. The first is strategic planning, where parent company cooperates with its subsidiaries to develop future goals, including the strategy to achieve them and their measurements of success. The second is strategic control, where subsidiaries are responsible for developing goals, strategy, implementation, and measurements of success. Under the second type, parent company provides future strategic theme to inspire the subsidiaries. A study reveals that this style is commonly applied to multibusiness corporations performing related diversification [2].

The third one is financial control, where parent company assigns the entire strategic and operational tasks and responsibilities to its subsidiaries. In fact, parent company with such management principle of financial control treats each subsidiaries as an individual company, without effort to build synergy among the subsidiaries [3]-[17].

Reflecting on parent company's crucial role in value creation, earlier studies reveal that such company can create values when parent company's characteristics are in line with subsidiaries' needs [1]-[4]. In other words, parent company can make good use of management opportunity towards its subsidiaries.

Value creation is also possible when parent company satisfactorily comprehends the businesses of its subsidiaries. To understand the subsidiaries' line of businesses, parent company must first understand critical success factors in managing the line of business where the subsidiaries operate [19].

3. Conclusion and Potential Issues

SOE holdings in Indonesia lead multibusiness corporations comprising of strategic subsidiaries or business units. These multibusiness companies are different from individual corporations in their capabilities to generate much larger values, beyond the accumulation of values from within their strategic units.

Holding companies are established with the objectives to improve the efficiency of multibusiness corporations and to streamline the lengthy process of internal decision-making in the SOEs, causing them to be less competitive than private companies. Holding companies will encourage their SOEs members to exploit any potentials to develop the corporations. SOE holdings in Indonesia are particularly incorporated to assist or resolve financial issues, assist government programs and to increase their leverages to allow for capital growth in assisting government programs.

In developing their business, SOE holdings are currently faced with several issues. One of them is their capabilities in developing business. IMD World Competitiveness Yearbook 2022 ranks Indonesia in 44th place (out of 63 countries) in terms of issues during COVID-19 recovery: unpreparedness to face the competing multinational companies, soaring logistic costs, difficulty in adapting to regional-scale corporations and limited number of international talents rendering Indonesia's competitiveness to be stagnant.

Multibusiness corporations are superior in efficiency and synergy. The scheme of SOE holding allows their subsidiaries to play diverse roles when executing a project. The integration of several business entities enables shared utilization of resources. In turn, it will save more expenses, compared to individual investments of each SOE. SOE holding will downsize the number of SOE and facilitate the government in monitoring the SOEs.

However, there is concern that establishment of SOE holdings will potentially cause monopoly. Monopoly in managing strategic public facilities and infrastructures may take place when holding companies are already established, causing potential limited public access and emphasis only on profit-seeking. It is thus crucial for Business Competition Supervisory Commission (*Komisi Pengawas Persaingan Usaha/KPPU*) to supervise the incorporation of SOE holdings.

Advance of multibusiness corporations requires management capability in a wide span of control. Strict supervision by the government and State Audit Agency (*Badan Pemeriksa Keuangan/BPK*) is the key in preventing illegal practices that adversely impacting SOEs. However, SOE holdings might undermine such supervision due to the decrease in supervision level or significance. Direct supervision is no longer conducted by the government. Instead, it is currently done by another SOE holdings. SOE will become subsidiary, and the subsidiary will become the third generation of holding companies.

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