The Reform of Public Service Bureaucracy in the Investment Sector Within the Pentahelix Perspective: A New Hope in the Era of Autonomy?

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A hierarchical qualitative analysis approach was used in this research. This research also employed the phenomenological method through participatory observation. The focuses of this research included institutional conditions, human resources, bureaucratic procedures and multi-stakeholder involvement. The research was carried out in two stages. In the first stage focused on finding the most appropriate model of public service bureaucratic reform. Whereas, the second stage included the formulation of convincing pentahelix model to enhance the process of investment service reform.

Keywords
Bureaucratic reform, public service, investment, pentahelix, penta helix

Cover Page Footnote
This research was successfully completed with the help and contributions of several parties. The researcher expresses the deepest gratitude to the Rector of Brawijaya University who granted this funded-research. Gratitude is also expressed to all reviewers of this article, and to the Committee of the International Seminar of AICoBPA FIA Universitas Brawijaya, whose support has made this research possible.
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**JEL classification:** L32, Z33

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Introduction

The development of investment service methods through a helical approach attracts researcher to investigate this issue, especially related to the support in the synergy among stakeholders and the realization of bureaucratic reform in a regional area. The general condition of public services in the investment sector in regional government level in Indonesia still receives complaints from investors since some issues still occur including a large number of illegal payments, uncertainty of completion time, long bureaucratic process, and the transparency and accountability of the government is still far from expectation (Aritonang, 2017; Pratiwi, 2014). It is regarded as necessary to conduct research into the concept of investment through the pentahelix approach to determine the best strategy to integrate the five elements of regional development resources, especially to address various problems regarding poor public services in the field of investment.

This research analyzed and developed public service models to be applied in the field of investment based on the pentahelix approach as a form of bureaucratic reform. Act Number 32 of 2004 states that regional governments have the opportunities to develop their regional potentials. However, regional autonomy might cause various uncertainties in the investment sector, even though there is no clear consensus on the relationship between local growth and working capital investment (Hongwei Gai, 2017; Wasiuzzaman & Arumugam, 2013). While, as the experience of some other Southeast Asian countries, such as Laos, the wealth of natural resources were attractive investments, but domestic investors were potentiality insufficient. Some problems have been known to hinder foreign and private investment in regards to the local government autonomy (Van Der Schaar, 2018; Eldridge, 2019; Wattanakul & Watchalaanun, 2017). The government of Indonesia then reaffirmed this policy through Presidential Instruction Number 5 of 2004 concerning the Acceleration of Corruption Eradication, especially the fourth instruction; improving the quality of public services through transparency and standardization. In addition, the President has instructed Governors and Regents / Mayors to: (1) Apply the principles of good governance in the Local Government level, (2) Improve the quality of public services and eliminate illegal levies. It is evident that bureaucratic reform is the main priority in realizing good local governance, including the reform in the management of investment licensing services.

This research was conducted in East Java Province, which is a strategic province for economic development in Indonesia. According to the Ministry of National Development Planning / Head of Bappenas, based on the Interregional Input Output (IRIO) Model, East Java is regarded the Center of Gravity as it influences the economic states of other regions in Indonesia (Aribowo et al., 2017). This research was done in Batu City, this city was selected as one of 33 regencies/cities in East Java that has special characteristics compared to other regions in East Java, even in Indonesia. First, Batu City has great potentials in the sector of finance or the economy, well-designed regional investment regulations, adequate apparatus and services to investors and strong government leadership. Second, Batu City is a unique city as it has just become an Independent City in 2002. In terms of administrative areas, Batu City is a new autonomous region that successfully developed a "brand image" as a City of Tourism. As a relatively new city, it has been able to accelerate its development by inviting investors to invest. Third, the city has formed an Investment Board to accommodate investments made for the city. Batu City also issued a regional regulation number 9 of 2012 concerning public services which regulate how public services should be implemented, including investment licensing.
Batu City keeps developing itself as a big city of tourism in East Java. More foreign investors keep coming and visit the city, even they make investment activities. Licensing service is a public service that influences the economic growth in the city. Based on Batu City Regulation No. 11 of 2011 concerning Regional Urban Planning in Batu City, the government aims to design Batu City as a safe, comfortable, productive and sustainable agropolitan-based city and a leading tourism city in East Java and as an area for the Brantas River function preservation (one of the largest rivers on the island of Java).

Whereas, the Regional Regulation No. 11 of 2011 concerning Spatial Planning for Batu City states that investments in Batu City should conform with the policies and strategies for the urban development of the city including:

a. Preservation of protected areas to improve the role of Batu City in preserving Brantas River and maintaining the environmental sustainability of the city as a beautiful, safe and comfortable mountainous city

b. Control of aquaculture activities that can bring environmental damages.

c. Development of environmentally-friendly residential areas and disaster mitigation

d. Development of the city to support national defence and security.

Regarding those reasons, the government of Batu City has established a One Stop Integrated Licensing Service (PPTSP) in the form of the Integrated Licensing Services Office (KPPT). This institution is expected to provide fast, easy, transparent investment licensing services based on the laws and regulations.

Unfortunately, the real implementation showed that investments in regions were still inadequate due to these following problems (Susilo, 2013; Tambunan, 2006);

a. Licensing abuse. The Integrated Investment and Licensing Agency or Badan Penanaman Modal dan Perijinan Terpadu (BPMPT) and government agencies give permission for infrastructure development that threatens environmental sustainability

b. Illegal activities. Some private buildings neither have business licenses nor building permits but they are operated for business activities.

c. Weak synergy between the government and stakeholders in supporting investment-friendly environment.

d. Inadequate role of academic and environmental studies regarding the importance of building permit based on environmental considerations.

e. Licensing service system that is not optimal and cannot meet the expectation.
Good investments are made in only strategic sectors or are leading sectors which will create future investment opportunities that support economic growth (Mohsin and Reinhart, 1990; Tayurskaya, 2018). Investors that are interested in investing with local government are mostly entrepreneurs engaged in the tourism industry and its sub-sectors such as attractions, hotels, restaurants, and so on. These investors deserve to be given better facilities, such as fair taxes and standard service, which will maintain the business climate in the region. It is interesting to find out how local government service bureaucracy support these investment opportunities, including whether or not multi-stakeholder role is able to overcome investment barriers in the regions. This research discussed this matter starting from the background of the problem as previously described, previous research related to investment issues, relevant methodological approaches with proper theoretical framework to support the analysis of research findings, and this research also provided conclusions and recommendations related to the results of the analysis of bureaucratic reform in relation to the role of stakeholders.

**Related Work**

The pre-research observations showed overview and data that Batu as a new autonomous region has been able to attract both domestic and international tourists’ and investors. The number of tourist visit increased by 137% each year over the past five years. Based on data mining in the BPMPT, the investment value made in Batu City over the past three years has been dominated by the business sector, amounting to Rp.851 billion of a total investment of Rp1.8 trillion. Investment in the trading sector reached Rp.851 billion, which was equivalent to 46.2 percent of the total investment value.

**Research Method**

This research was conducted using a combination of several qualitative descriptive steps based on case study approach which included: limitation of the research scope, development of analytical research questions, data collection, interviews, observations, statistical data analysis, triangulation and data interpretation (Bogdan and Taylor, 1990). The validity of the obtained data was tested in a series of tests that included; a. credibility test (internal validity), b. transferability test (external validity), c. Dependability test (reliability), and d. confirmability test (objectivity). The analysis of data credibility was continuously carried out through some steps starting from data grading to conclusion drawing.

**Results and Discussions**

**The reform of public service bureaucracy**

The bureaucratic structure of Local Government services, especially in Batu City in terms of effectiveness showed that; First, inefficiency was found regarding the fulfillment of the needs and conditions of the city. Complicated bureaucratic structure often brings inefficiency as it inhibits fast public services. Secondly, service delivery still involved too many institutions, making it less effective and less efficient. Third, weak bureaucratic control and lack of service from non-government partners. To overcome these weaknesses, Bureaucratic Reform in the form of Investment Licensing Service in Batu City has been prepared, covering these following three dimensions; Institutional reform, Apparatus reform, System and Procedure Reform.
It is important that the licensing bureaucracy involves responsive institutional arrangements to manage public services effectively. The performance of public services is the most tangible measure of the success of bureaucratic reform. Therefore, it can be assumed that bureaucratic reform is successful when the level of effectiveness is high (Lee, 1990; Paskarina, 2017:1; Hapsari, et al, 2018). Licensing bureaucracy reform addresses the problems related to licensing services which have made for a weak outcome of community empowerment and economic development in regions.

**Figure 1:** The aspects of investment service bureaucratic reform

![Diagram of Investment Service Reform within the Penta Helix Perspective](image)

**The Models of Investment Service Reform within the Penta Helix Perspective**

At present, the technical capabilities of the local bureaucracies, parliament, and political parties at the regional level are insufficient to meet the rising demand for business planning, managing state funds, and implementing development programs (Nasution, 2016). Strategic issues in the implementation of regional autonomy, especially the ones related to investment policies in Batu City included (1) lack of synergy between regions in describing investment programs and infrastructure development, (2) Weak environmental carrying capacity due to massive population growth (3) Limited Financing Resulting in Low Investment related to the Fulfillment of public goods such as Drinking Water, (4) Limited financial resources for investment through loans that are increasingly hampered by high debts (5) Government, public and private partnerships are stronger in the less productive sectors, (6) There is no clear plan to create a competitive entrepreneurial ecosystem (Alberti et al., 2016). Regional investment has always been perceived as private capital or local government debt.

Within the penta helix perspective, the term 'penta' means five and 'helix' means network. This term refers to the condition in which government, private, intellectual, mass media and environment are
seen as the keys to the development of investment and better government bureaucratic performance (Ortiz, 2016; Rufaidah, 2014).

The elements related to the government have the political power to formulate various policies. In real practice, local government such as Batu City Government which is mostly engaged in the tourism sector, carries out a function as a provider of regulations and permits and holds the responsibility to guarantee the availability of investment to support its facilities and infrastructure, integrate the development of business sectors such as agribusiness sector and tourism, as well as access to integrated hotels. In accordance to the strategic plan of the Tourism and Culture Office of Batu City in 2012-2017, the development of investment, especially tourism is under the government’s responsibility to invite stakeholders, including the Association of Indonesian Restaurant Hotels (PHRI), tourism object management, tourism village management, Batu City Arts Council, Community Organizations (BAPTA, ASITA, HPI) to contribute according to their respective fields. Therefore, the government are knowing and Learning the components of a public affairs and government relations strategy, Identifying objectives and goals, stakeholders and key messages (ISOCH, 2019).

Media groups, journalist communities, writers and bloggers play an important role in promoting investment potentials in regions. Brad Barber and Odean Terrance (Ayza, 2016), directly found relationships between the influence of both the press and investors. They considered that investors make decisions on the shares of companies that are familiar to them. The media has an effective role in enhancing investors' motivation. Journalists and mass media are the informants who must be appreciated as government partners in providing balanced and conducive information about regional potentials.

Academicians. The success of investment in an area is related to the success of academicians in (1) providing objective and scientific information supported by valid research results on regional potential, (2) integrating scientific and social cultural disciplines including religious insight, local wisdom, nationality, culture, language and psychology, (3) testing service procedures as a means to hold government responsible and reflect the perspective that effective institutions leadership, effective service and investments accelerate the achievement (Estermann and Veronika, 2018). (4) making contributions in the form of scientific studies related to performance evaluations, improvement of the quality of human resources and service system innovation, (5) conducting R&D to guarantee continuous professional development as a process of maintaining the existing the level, and broadening of the horizon of knowledge, skills and qualities needed to work as a professional (Khan and Khan, 2017).

Businessman. The biggest investment actors are entrepreneurs as one of pentahelix's supporters who play the most role in the development of regional investment. Local government still needs to expedite licensing for entrepreneurs, including for Micro, Small and Medium Enterprises after obtaining investment approval, and the government needs to accelerate the licensing procedure. There are at least 6 main problems that trigger complaints from investors; (1) inconsistent local regulations. There are many rules that fail to give focus on matters that really need to be regulated, (2) Tax issues, (3) labor quality issues, (4) land availability and permit constraints, and (5) infrastructure quality, and (6) service uncertainty.
Environment. Since 2012, environmental degradation and the transfer of land functions have been a serious concern. Batu City is a center of apple production in Java continues to have its production level decline. This problem is indicated by (1) a decreasing area for vegetable and apple fields as the fields have been turned into hotels or entertainment venues, (2) a decreasing number of water springs and the shrinkage of the Brantas River spring which is one of the largest rivers in Java. These problems should be well-concerned by the government since failures in maintaining and managing the nature and the environment will lead to decreases in agribusiness sectors and non-sustainable tourism development which brings damages to the environment.

These issues should be considered before granting the permit for a new tourist site development.

Figure 2. The Conceptualization of Penta Helix Perspective in the Licensing Service Reform
To encourage investment, various issues have to be identified, and the bureaucratic reform should be carried out in the form of bureaucratic institutionalization, system reform and work procedures reform, operational structure reform, and apparatus resource reform, especially the reform of bureaucratic mindset for better service quality (Yusriadi et al., 2018). Issues related to licensing procedures are also related to environmental issues. The government should determine the zones prohibited for development as stated in the RTRW. Agricultural and plantation areas should be maintained by the help of the media and academic studies. Hence, the remaining area of agricultural land will be maintained and business activities will be prevented from encroaching the productive land. Essentially, the role of the government in encouraging investments refers to the need to provide proper infrastructure (not only in physical forms), develop various forms of facilities, synergize the activities between government officials and the private sector, and involve the roles of universities. The penta helix perspective is also beneficial for regional planning and ideal environmental management as it integrates investment development into economic, physical and social development programs of an area to provide good government policy framework.

To support bureaucratic reform in the field of investment service, the OECD has offered 12 recommendations which are divided into three pillars of action, namely; Coordinate across governments and policy areas, Strengthen capacities for public investment and promote learning across levels of government, Ensure sound framework conditions at all levels of government (OECD, 2014).

**Principles for Action**

Principles group 12 recommendations into the 3 pillars representing systemic challenges to public investment

**Figure 3.** Principles for Action in public investment (adapted from OECD, 2014)
Based on the principles of action above, it is certain that to support investment, the Pillar I which relates to the needs for better coordination between governments and related policies should be enhanced. This pillar includes these following principles:

- Invest using an integrated strategy tailored to different places. In some situations, it may be necessary to combine, either concurrently or sequentially, different approaches to manage services (Coram & Burnes, 2001).
- Adopt effective instruments for coordinating across national and sub-national levels of government. This causes complex relationships among the many stakeholders and requires effective coordination and cooperation among the actors to harmonize project implementation (Nurdin et al., 2014)
- Co-ordinate horizontally among sub-national governments to invest at the relevant scale.

Pillar II: Strengthen capacities for public investment and promote learning across levels of government, indicators;
- Assess upfront the long-term impacts and risks of public investment
- Engage with stakeholders throughout the investment cycle
- Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities. The agenda of mobilising private resources for development is very broad, covering private sector development activities intervening at the local, the international or the systemic level, in a variety of domains (trade, development, debt), of operational as well as policy nature and interacting with different types of resource flows (Vaes and Huyse, 2014)
- Reinforce the expertise of public officials and institutions involved in public investment
- Focus on results and promote learning from experience

Pillar III: Ensure sound framework conditions at all levels of government, indicators;
- Develop a fiscal framework adapted to the objectives pursued
- Require sound and transparent financial management at all levels of government
- Promote transparency and strategic use of public procurement at all levels of government
- Strive for quality and consistency in regulatory systems across levels of government. Appraising the promise and the performance of regulatory reform through the Regulatory Impact Assessment (RIA) method in Indonesia’s trade, investment, and industrial incentive policies (Kurniawan et al., 2018).

Essentially, the final challenge of investment service improvement in regional government is to enhance community welfare. The regional government has a better understanding of the potential investment sectors that have a comparative advantage to be developed. Using the authority in the era of decentralization, the regional government will have the chance to reform its service bureaucracy, make better coordination with multi-stakeholders, manage and carry out investment activities on their own initiative based on certain community interests and promote public investment. Investment in regions is also a means to accelerate regional growth and improve community welfare. Also, the volume of investments, their dynamics are characteristics of the effective regional management system (Tayurskaya et al., 2018).
Conclusions and Recommendations

Bureaucratic reform of public services needs support from various supporting factors characterized by the support of national policies and adequate building infrastructure. However, those factors are not adequate, as the reform needs to be supported by a synergic operational approach at a lower level, including licensing service institutions, entrepreneurs, academicians, media mass, and environment. The government still faces problems in carrying out the licensing service function. The use of a penta helix perspective can at least reduce the inhibiting factors in the implementation of licensing bureaucracy reform by (a) encouraging the commitment of regional governments to enhance the consistency in implementing various regulations (b) reducing legal uncertainty and overlapping regulations, (c) opening up spaces for coordination, discussion and consultation to get the government closer with stakeholders and to prevent ambitious tax acquisition, (d) encouraging innovation and breakthroughs that can accelerate regional bureaucratic reform, (e) strengthening institutional capacity and authority to support good investment services. This study limited the role of stakeholders only in optimizing licensing or investment services. Future researchers are encouraged to investigate one of the biggest challenges or obstacles in the field of investment which is a regulation-related issue, especially about regulations or policies issued by the government that needs the involvement of entrepreneurs to conduct prior discussions before being published and applied.

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