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Port Reform and Change in Indonesia: An Assessment of the Potential Strategic Responses of IPC II

by

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Acknowledgements

بسم الله الرحمن الرحيم

Like in a battle, the writing of this thesis is the end of conscription. Someone who did not have enough military knowledge must bet to finish the conscription. If he succeeds, he will come home safely. If he fails, no one will appreciate all the effort he has done. Therefore, he did all the effort in earnest, he sought a help and assistance, and of course, he had to adapt to the battle area.

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Finally, after undergoing conscription, I do not expect to be a fierce warrior, but I would hope to be a peacemaker.

فاستبقوا الخيرات

Abstract

During the last two decades, public sector restructuring has become a global trend. Restructuring has also occurred in the port sector, which later known as the port reform. Many developing countries have been implementing port reform with the aim to improve the port performance.

For those countries that manage the port with a monopoly by the state or by state owned companies, port reform has often been interpreted as to open the opportunity for private sector to participate in port management. The Indonesian government has enacted the law number 17 of 2008 concerning Shipping, replacing the previous law on shipping (1992) which legitimized the monopoly of port management by state owned companies (IPC).

The shipping law (2008) has mandated the Government to establish Port Authority. As a representative of the government, the Port Authority plays a role in providing concessions to the Indonesian legal entities to operate terminals / ports. This is commonly called the liberalization of port management.

This thesis will examine how significant the implementation of the Shipping Law (2008) affecting the port reform. Many obstacles will be encountered in the implementation of the Shipping Law (2008) either institutional constraints or political constraints.

IPC as the incumbent would be directly affected by the implementation of the Law (2008), but how strong this impact will affect the IPC depends on the interpretation of the Shipping Law into its implementing regulations. Therefore, this thesis will also discuss the strategic responses by IPC in anticipating the implementation of the new Shipping Law.

Table of Contents

List of Tables

List of Figures

List of Abbreviations

BCG	:	Boston Consultant Group
BOO	:	Build-Operate-Own
BOOT	:	Build-Own-Operate-Transfer
BOT	:	Build-Operate-Transfer
BPP	:	Badan Pengusahaan Pelabuhan
EDII	:	Electronic Data Interchange Indonesia
EFE	:	External Factor Evaluation
GDP	:	Gross Domestic Product
HPH	:	Hutchinson Port Holdings
IFE	:	Internal Factor Evaluation
ILO	:	International Labour Organization
IPC II	:	Indonesia Port Coeporation II
JICT	:	Jakarta International Container Terminal
MAL	:	Mustika Alam Lestari
MTI	:	Multi Terminal Indonesia
OTP	:	Ocean Terminal Petikemas
PERUM	:	Perusahaan Umum
PN	:	Perusahaan Negara
RSP	:	Rumah Sakit Pelabuhan
SPACE	:	Strategic Position and Action Evaluation
TOWS	:	Threats-Opportinities-Weaknesses-Strength
UNCTAD	:	United Nations Conference on Trade and Development
USAID	:	United Startes Agency for International Development

Chapter 1: Introduction

1.1 Background

Indonesia is the largest archipelagic country in the world. It consists of more than 13 thousand islands. The location is very strategic because it lies between Asia and Australia, between the Pacific and Indian Ocean. It is one of the world's most significant trade routes. In such location, ports become very vital in Indonesia to support the activities of trade and mobility of the population in a very wide area.

There are thousands of ports in Indonesia, mostly private ports. A total of 111 commercial ports are managed by four state-owned companies namely Indonesian Port Corporation (later called IPC) I, II, III, and IV that are split on the basis of provincial coverage. IPC I covers the provinces of Aceh, North Sumatra, and Riau. IPC II covers the provinces of West Sumatra, Jambi, Bangka Belitung, South Sumatra, Bengkulu, Lampung, West Java, Banten, Jakarta, and West Kalimantan. IPC III covers the provinces of Central Java, East Java, South Kalimantan, Central Kalimantan, Bali, West Nusa Tenggara, and East Nusa Tenggara. Meanwhile IPC IV covers all provinces in Sulawesi Island, the provinces of East Kalimantan, Maluku, and Papua (USAID, 2008).

In addition to the commercial ports managed by IPC, there are over 1000 special or private ports serving the special needs of companies/factories--both private and state owned--in a number of industries including mining, oil and gas, fisheries, forestry, etc. In Indonesia there are also 614 non-commercial ports that are not-for-profit and have little strategic value (USAID, 2008).

Prior to 2008, IPC was regulated by Law number 21 of 1992 concerning shipping issues. In that law regime, the IPC was given monopoly rights to run commercial ports. Under the shipping law number 21 of 1992, the role of each party was not clearly stated. IPC had dual roles as port operator and regulator (the role of the Port Authority) at the same time. This made IPC unable to focus only on profit and market share but also on micro economics objectives such as return on capital employed and maintaining competitive pricing.

Since it was unclear who should contribute to manage the traffic at the port, the container traffic growth in Indonesia was relatively decreased from year to year, compared to other developing countries. This can be seen from the data of Container Port Traffic for the developing countries as follows:

Table 1: Container Port Traffic in Indonesia

Year	Traffic (TEU's)	Ranking
1995	2.196.714	7
1997	2.478.674	8
2007	4.410.798	13

Source: UNCTAD 1997, 2000, 2009

On the other hand, port users encountered several inconveniences to use the port facilities in Indonesia but they had no other choice. Customer satisfaction surveys which were held by the IPC II (in 2008 and 2009) indicates that many issues were frequently complained by customers including high cost, inadequate port facilities that potentially led to congestion and low service standards.

Maintaining a monopolistic system of port management means that intentionally preventing global influence to participate in the port management as well as business in Indonesia.

Currently, most developing countries are aware of the tremendous potential benefits of opening their internal markets and external trade liberalization. Therefore, many developing countries in the world have reformed their port management system with various models.

Recognizing the need of port reform, in 2008 the Indonesian government enacted the new shipping law that was fully implemented in 2011. The new law is aimed at replacing the previous shipping law number 21 (1992). The shipping law also regulates the national port system.

The spirit of the new law is to open greater opportunities for private companies, both local and foreign companies, to participate in the port management business. Management and operation of commercial ports and terminal operators will be opened to private companies. In other words, the era of monopoly for the IPC will soon be over.

Currently, the Government of Indonesia is preparing some regulation derived from the new Shipping Law. One of the derived regulations that has been issued is Government Regulation number 61 of 2009 which deals with the general policy, although it has not been effective before the Ministry of Communication passes the implementing regulations.

1.2 Problem Description and Research Question

The enactment of new Shipping Law is just the preliminary stage of port reform. The implementation of the new Shipping Law is expected to become a port sector reform in Indonesia. However, how attractive it is for private companies to invest in port business will greatly depend on the interpretation of the law into their derivatives regulation. In the law itself, there are several chapters containing multi-interpretation.

Many uncertainties will lead to some possibilities that may happen. From the view of potential investors, how broad the business access for them still highly depends on the interpretation of the law as it is expressed in the implementing regulations.

For the IPC - the incumbent - this reform will have a profound impact on the external business environment in the port industry, and has a great potency to change the constellation of the port business. IPC II has carried out the business as a monopolist. However, this monopoly right is due to the regulation instead of a natural reason. Hence, IPC II does not have the experience to compete.

The scope of business that has been operated by IPC may be changed under the new law, but the opportunity is still opened for IPC to remain conducting its business as current.

Based on the above descriptions, the main research questions are:

- What kind of port reform might be performed based on the new shipping law? And how large will the opportunities be for private companies to participate in the port business?
- Will there be any fundamental changes in the role of IPC II and private companies in the management and operation of the port sector?

- Will IPC II be able to design a strategic response to anticipate the changes in the shipping law?

1.3 Methodology

Two research methods are used in preparing this thesis. The first method used is literature studies and the second is field research by way of interviewing experts and stakeholders. The desk research and field research will be used as a basis to conduct a case study.

In the literature studies, publications concerning the 1992 Indonesian Shipping Law and its derivative regulations were collected. This was done in order to obtain sufficient understanding on the port governance before the enforcement of the new Shipping Law. In addition, information about the 2008 Indonesian Shipping Law and its derivative regulations were also collected. It includes the Government Regulation number 61 of 2009. This study is aimed at seeing the possible changes that might occur as a result of the implementation of the new shipping law.

The main reference for the review of port reform is a tool kit published by the World Bank. Therefore, in this literature review, the Port Reform Tool Kit becomes a priority to learn. In addition, the review also analyzes some related literature from various sources such as International Journal of Maritime Economics and other types of publications. The information was collected and studied to identify the problems and to examine various theories related to the Indonesian port reform and the strategic responses that the IPC II needs to do.

Furthermore, interviews with experts and stakeholders in the field of shipping law, port reform, business strategy, and ports of Indonesia were conducted to observe what kind of port reform models that may happen. It is necessary to increase the understanding of the theory and the case in this thesis.

A case study was conducted in IPC II –the representative of the incumbent port operator– that is directly affected by the implementation of a new shipping law. In this phase, the verification is carried out through literature reviews and interviews with the experts concerning with the problems faced by IPC II. The main idea in this case study is to identify what the IPC II has to do in terms of strategic marketing whether there is any relevance with the finding or not, and what the IPC II should do to take the anticipatory measures based on a strong theory.

1.4 Thesis Structure

Briefly, the thesis structure can be seen in the diagram below. It is organized into 6 main chapters: introduction, literature review, research methodology, case study analysis, IPC II strategic response, and conclusion.

1. Introduction				
Background	Problem Description	Methodology	Thesis Structure	Difficulties

2. Literature Review					
Review of Indonesian Shipping Law	Evolution of Port Management	Port Model	Port Management	Port Competition	Business Strategy

3. Research Design			
General Approach	Preparing Data Collection	Collecting Evidence	Analyzing Evidence

4. Case Analysis							
Changes on the Role of Each Party	Type of Port Reform	Participation through Special Port	Private Sector Participation	Goverment Readiness	Private Companies's Opportunity	Legislative Scenario	The Possible Role of IPC II

5. IPC Strategic Response			
IPC II's Profile	Business Mapping	Analysis of Market Attractiveness	IPC II's Strategic Response

6. Conclusion	
Conclusion	Recommendations

Source: Author

Figure 1: Thesis structure

Chapter 1, Introduction: In this chapter the background, description of the problem, research methodology, thesis structure, and difficulties are presented. This is to provide preliminary understanding of this thesis as a whole.

Chapter 2, Literature Review: Three main sections in this chapter are review of the Indonesian Shipping Law, port reform, and business strategy. The concise review of Indonesian Shipping Law is required to obtain an understanding of the expected changes due to the implementation of the new Shipping Law. The review of port reform is to be obtained from the Port Reform Toolkit –module published by the World Bank– and articles from various sources. Review of the literature on business strategy is necessary, as a strategic response of the IPC II to various possible changes in business position resulting from the implementation of the new Shipping Law based on an adequate theoretical basis.

Chapter 3, Research Design: In this chapter, the research design especially discusses the research based on the qualitative sources. The points of discussion in this research design are the general approach, preparing data collection, collecting evidence, and analyzing evidence.

Chapter 4, Case Analysis: This chapter presents a comparison between current conditions with the predicted condition after the implementation of new law in several points: changes on the role of each party, type of port reform, private sector participation, special ports, government readiness, and private companies' opportunity. This chapter will also analyze the legislative scenarios and the possible role of IPC II.

Chapter 5, IPC II Strategic Response: This chapter consists of four parts, namely: IPC II's profile, business mapping, analysis of market attractiveness, and IPC II's strategic response. Based on the case analysis in chapter 4, chapter 5 describes the strategic response of IPC II by confronting the potential legislative scenarios of port reform against the possibility of IPC role. Various alternatives of business strategy are prepared based on the possibility of the role of IPC II in some legislative scenarios

Chapter 6, Conclusion: This chapter summarizes the main findings in the study, the conclusion resulting from the overall study as well as suggestions for the IPC II on strategic decisions that may be prepared.

1.5 Difficulties

Many limitations were found in this research. The common barrier for MEL students is the limited time to prepare the research. This is the main reason why this thesis is mainly based on the existing publications and limited data.

The next constraint is that the inadequate data and publications related to this research. The Shipping Law no. 17 of 2008 in Indonesia has been enacted since about two years ago and until now has not been followed by its implementing regulations. Therefore, data and publications related to the new Shipping Law are so limited.

This fact slightly weakens the analysis of the research. All possible efforts have been done to update and integrate all data and information collected. Efforts were done by correspondence with the competent persons and utilizing the resources on the website.

The opportunities of private companies to participate in the port sector in Indonesia still have to wait for the issuance of derivatives regulation. How big are the opportunities they are allowed to participate in the port sector. This is still a big question until the issuance of implementing regulations.

The existence of IPC-II post-enactment of the new legislation is uncertain, because the interpretation and understanding of the law has not been described in the derivative regulations, and therefore the preparation of a strategic response by IPC II becomes a kind of contingency plan based on the limited data and information.

It is important to review all the relevant articles in the Shipping Law, discuss with several parties, and predict the legislative scenarios regarding the opportunity of a private entrance to the port sector.

Chapter 2: Literature Review

Three main sections in this chapter are review of Indonesian Shipping Law, port reform, and business strategy. These three are closely related to this thesis, since this paper discusses the strategic response of the IPC II on port reform in Indonesia. Port reforms in Indonesia have been launched since the enactment of the Shipping Law in 2008.

The concise review of Indonesian Shipping Law is required in order to obtain an understanding of the expected changes due to the implementation of the new Shipping Law. The 2008 Shipping Law provides the basis for comprehensive reform of Indonesian port system. The most prominent is that the 2008 Shipping Law removes the government monopoly on the port sector and opens up the opportunities for private sectors to participate. (USAID, 2008)

Review of the port reform may be obtained from Port Reform Toolkit – a module published by the World Bank – and several other articles from various sources. The Port Reform Toolkit was designed by the World Bank to provide institutional learning for renewal by providing background information, concrete examples, special equipment, and methods those policy makers and reformers need to proceed with the conviction that genuine knowledge affords. This is intended to provide policy makers and practitioners with effective decision support in making reforms sustainable and well-regarded public institutions that provide, direct, and regulate port services in developing countries. (World Bank, 2007, p xviii)

Review of the literature on business strategy is necessary as strategic response of the IPC II to various possible changes in business position resulting from the implementation of the new Shipping Law based on an adequate theoretical basis.

2.1 Review of Indonesia Shipping Law

Prior to 2008 shipping sector in Indonesia was regulated by shipping law number 21 of 1992. In the year 2008 the Indonesian government enacted the new shipping law no.17. This new law consists of 355 articles covering a variety of matters related to the shipping sector, such as navigation, harbor, safety and security of shipping, sea and coast guard, seaworthiness, environmental protection, welfare of seafarers, maritime accidents, human resource development.

Port sector gets a special attention on the 2008 Shipping Law and it is embodied in a separate chapter consisting of 50 articles. Meanwhile in the 1992 Shipping Law, port sector is regulated in 14 articles.

Three major innovations in the 2008 Shipping Law are preparation of the guideline of national port, preparation of national master plan of port, and the establishment of port authorities. At present, as consequences of former Shipping Law, there is no adequate attention to this matter.

The guidelines of national port, as mentioned in article 67 of Shipping Law, is realized in order to have a port governance which is highly reliable and capable, ensure efficiency, and has global competitiveness to support national and regional development vision. Hence, the guidelines of national port have to become a comprehensive port system that includes the role, functions, types, port's hierarchy, the national master plan of port, and the location of the port and integration of intra and inter moda and integration with other sectors.

National Ports Master Plan contains a comprehensive planning of national port which includes the references to determine the location, construction, and operation of the port. National Ports Master Plan is to be decided by the Minister of Transportation for a period of 20 years, and can be reviewed once in five year. (2008 Shipping Law, Article 71).

Port Authority will be established at all commercial ports. The port authority is responsible to the Minister of Transportation and acts as a representative of the government to give a concession or any other form of license to the port business entities to conduct business activities in the port (2008 Shipping Law, Article 82), meanwhile, port business entities which were given concessions or any other forms of license by the port authority will act as the port operator which operate the port terminals and other port facilities.

In addition to the three new matters as mentioned above, there is one different point from the previous legislation which becomes the basic principle of the changes on the management of commercial ports in Indonesia. This essential point is that the legislation gives the opportunity for private companies to operate commercial ports in Indonesia, as mentioned in article 91.

In the previous legislation when most people called it the era of monopoly, port management rights were only granted to state-owned companies which were represented by Indonesia Port Corporation (IPC) I, II, III, and IV. (1992 Shipping Law, article 26). Besides as the monopolist for the port operator, IPC also performs the role that is usually conducted by the Port Authority

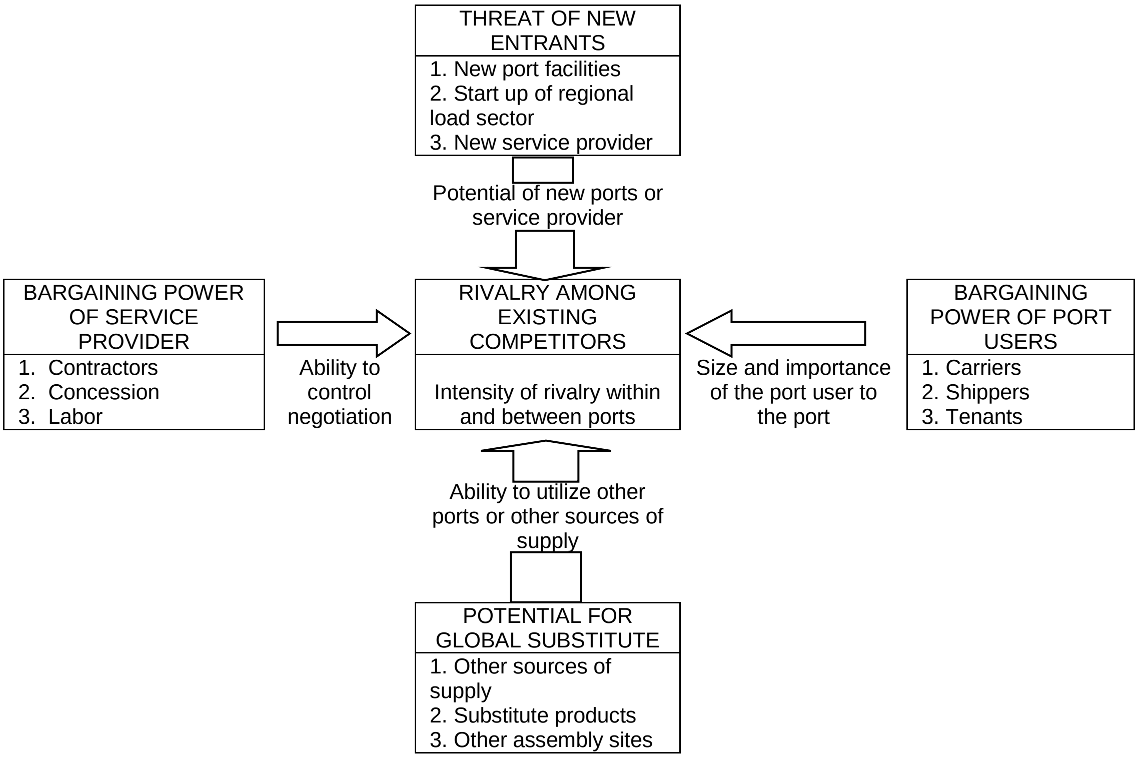
The existence of IPC in the legislation is still confusing because there are contradictory clauses. Article 91 states that the provision of port services is performed by the port enterprises which may be state-owned companies, municipal-owned companies, or private business entities, while Article 344 states that the business activities in the port that have been held by state-owned companies will remain to be held by these State-owned companies.

2.2 Evolution of Port Management

Since about two centuries ago, the port sector has been very vital for the government and trading activities. Initially the port tended to be a tool for the state or colonial state to become an 'Access' in controlling the market. Port was positioned as a support tool for trade, so the main attention is not on the port but more on the trade itself. As a result, there was almost no competition among the ports.

Changes in the port sector have occurred many times since the 19th century to the 21st century. Today, many ports are competing with each other. Competition occurs not only at narrow regional scale, but has led to wider global competition. Competition among ports is an integral part of the current condition in which the port changes to become the industry that can generate tremendous profits.

Changes in the port sector can occur many times depending on the interactions of five major powers –adopted from five forces analysis model (Porter, 1980) – such as illustrated in the competitive landscape in figure 2 below:



Source: World Bank (2007)

Figure 2: Competitive Landscape

UNCTAD has described the concept of port evolution. The classification of ports into several generations of evolution is like a snapshot series; however, it still gives a chronological insight about the 'evolution of the port'. The evolution of the port concept according to Verhoeven (2009) is shown in Table 2 below:

Table 2: UNCTAD generation of ports

GENERATION	PERIOD	CHARACTERISTICS
First Generation	Before 1950	Sea approach, transfer of goods, temporary storage, and delivery
Second Generation		Includes A plus industrial and commercial activities which give added value to the goods. The port is a handling and services centre.
Third Generation	Since 1980	Includes A plus B plus structuring of the port community, plus strengthening links between town and port and between port-users, plus extension of the range of services offered beyond the port boundary, plus an integrated system of data collection and processing. The port has become a logistics platform for trade
Fourth Generation	Since 2000	Network of physically separated ports (terminals) linked through common operators or through a common administration.

Source: Vehoeven (2009)

Based on Porter (1980) and the application of this framework by the World Bank (2007, Mod 2: 21-36), five forces that will interact with each other to shape the competitive landscape facing port authorities and port service providers are:

- The rivalry among existing competitors
- The threat of new competitors
- The potential for global substitutes
- The bargaining power of port users
- The bargaining power of port service providers

Furthermore, in the 1980s many of the ports became a barrier to efficient distribution chain, while the port should have been an important element in the distribution chain. Many ports experienced congestion and had consequences on the decreased level of service chronically. As specified in the World Bank Toolkit (2007), three main problems contributed to the gradual deterioration were: restrictive labor practices, centralized government control in the port sector, and “white elephants” (disinvestment).

When there was a lot of failure in port development in many countries and the governments considered to reduce the dependence on the state budget and to spread investment risks through various forms of cooperation, many private companies were interested in investment in the port sector. The deterioration of port service quality was the main concern when private companies glanced at the port sector, because if port sector was well managed would undoubtedly generate great added value.

According to Hoffmann (2001), since the early 1990s the interest of private companies to participate in financing port development has been increasing. Funding from private companies is now flowing to the port sector development programs in Asia and Latin America, because most of the ports were previously managed by inefficient state-owned companies.

2.3 Port Model

As quoted in World Bank Toolkit (2007), many factors affect the way the ports were organized, structured, and managed, such as:

- Socio-economic Structure: each country has a different market economy policy, and different levels of open borders policy;
- Historical development: each country has different historical backgrounds, especially those related to colonization
- Location of the port: urban area or isolated area
- Type of cargo handled: bulk cargo, general cargo, or containers.

Output generated by the port activity is a mixture of public goods and private goods. Public goods produced in the form of indirect economy, especially in matters relating to trading activities. Meanwhile, private goods are obtained in the form of direct economic benefit from their operational activities.

Many parties are institutionally involved in the management and operation of the port sector. Each party has a different role, which is generally illustrated by the World Bank (2007) as follows:

- Central Government has a major concern in macro-economic objectives, hence, has an important role in formulating the policies of seaport and maritime sector.
- Port Authority is often called as the governing body, and it has a major concern in port finances and operations. Therefore, the port authority has the primary objective to achieve the full cost recovery and an adequate return on capital.

- Port Operators have a main focus on microeconomic objectives. They have an interest in profit maximization, market growth, and increasing market share.
- Minister of Transport has the main tasks and responsibilities in such matters related to policy making, legislations, international relations, financial and economic affairs, and auditing.

Some countries often formed a directorate that is an independent body under the auspices of the Ministry of Transportation responsible for maritime and port sectors. The main elements of a typical maritime and ports directorate as described by World Bank (2007) are as follows:

- Ship inspection and registration of shipping
- Traffic safety and environment
- Maritime education and training
- National port policy
- Hydro technical construction
- Port state control
- Security compliance
- Investigation into and adjudicate the maritime incident
- Perform as regulatory and licensing functions
- Vessel traffic system
- Search and rescue

Ports have a lot of functions that can be played by several organizations. In the port system which has many organizations inside, one or more organizations fill the role as: landlord for private entities, regulator, planning, operator, marketing and promotion, cargo handler and store keeper, and ancillary activities. (World Bank, 2007)

In order to obtain sufficient understanding of the role of the public sector and private sector in port management, the World Bank has clearly categorized the port management model into four types namely: Public Service Port, Tool Port, Landlord Port, and Private Service Port. Table 3 below summarizes the characteristics of each port management model with the level of public or private dominance.

Table 3: Basic Port Management Models

	MODEL	INFRA STRUCTURE	SUPER STRUCTURE	PORT LABOR	OTHER FUNCTION
Dominant public sector	Public Service Port	Public	Public	Public	Majority public
	Tool Port	Public	Public	Private	Public/private
	Landlord Port	Public	Private	Private	Public/private
Dominant private sector	Private Service Port	Private	Private	Private	Majority private

Source: World Bank (2007)

There is no single model suitable to be applied uniformly around the world; every country applies the port management model that is most appropriate to the local bureaucracy and business. Each model has strengths and weaknesses which are different from each other. Strengths and weaknesses are summarized in Table 4 below.

Table 4: Strengths and Weaknesses of Port Management Models

MODEL	STRENGTH	WEAKNESS
Public Service Port	Unity of command	- Limited role of private sector - Poor handling in case of labor problems - Less competition - Wasteful use of resources - Not based on market oriented - Less innovation - Limited access to public funds
Tool Port	Avoiding duplication of facilities	- Possible conflicts between port administration and private enterprise - Private company tends to have a weak balance sheet - Risk of under investment - Lack of innovation
Landlord Port	- Private companies have the discretion to run their terminal operators business; - Market oriented	- the risk of over capacity - misjudging to determine the appropriate time for capacity development
Private Service Port	- Maximum flexibility - Less government intervention - Enable to plan market –oriented port development - Enable to broaden the scope of activities	- Government may need to control monopolistic behavior; - The government could lose a role in economic development in the port sector; - Government should provide a lot of money to by a back the port land; - Speculation private company in the port land

Sources: World Bank (2007)

2.4. Port Competition

Competition in the port sector is generally influenced by the volume of cargo, and the market growth which is represented by the potential growth of traffic. The competition-based market mechanism is also believed to be able to reduce the opportunity of monopoly abuses and the government intervention. Therefore, the following factors such as cross-subsidies, labor policy, and technological development of equipment also affect the competition.

The form of port-related competition, according to the World Bank (2007), can be identified into three types: inter-port competition, intra-port or inter-terminal competition within a port, and inter-terminal competition. The three types of competition are distinguished by the coverage of competition.

Inter-port competition is a competition between two or more ports (terminals) in a certain region for the same trade. Understanding of the term of region could be varied, for examples ports in different countries with the same hinterland, among ports within the same range (Hamburg Le Havre Area), between port that compete inter-regionally (Japan and Australia). Inter-port competition could happen to the origin-destination cargo, transshipment cargo, or both. Inter port competition is also influenced by geography, financial resources, institutional structure, socio-economic climate, efficiency and price, and image.

Intra-port competition or inter-terminal competition within a port is a competition between two or more terminals that compete on the same market in the same port, for example, stevedoring service of international containers among JICT, Koja

Container Terminal, and MAL Container Terminal at port of Tanjung Priok Jakarta. Intra-port competition is usually desired by the Port Authority in order to reduce the risk of monopoly

Intra-terminal competitions arise between two or more companies competing to provide the same services in the same terminal. The example is the competition of two stevedoring company at Port Limon, Costa Rica, between Estibadora Caribe and Coopeunitrap.

2.5 Port Reform

International transportation system experiences the continuous changes leading to the concept of an integrated transport. This caused a high pressure for the port sector to adjust their roles and functions to anticipate the demanding business environment. Therefore, the port sector reforms undertaken by many countries in the world. Generally, the key topics in the port sector reforms are as follows: (Juhel, 2001)

- Reformulation of national port system;
- Reform the legislative, institutional, procedural for port system planning and regulation;
- Organization of port management arrangements; and
- Introduction of innovative financing and cost recovery schemes.

Not all the benefits of port reform are able to be measured financially, because there is also an economic benefit from the amount of efficiencies generated through the port reform. Hence, motivation of the port reform is measured from financial and economic goals. The common motivations of port reform, as described by van Niekerk (2005), are:

- The need to improve productivity and efficiency;
- The improvement of management capability;
- To achieve financial autonomy;
- Redeem the debt obligations;
- Rationalize port structure;
- Minimize political intervention.

The process of institutional port reform is complicated. Many countries have different reasons to reform their port sector, but there are some common reasons, including the role of shifting boundaries between public roles and private participation in the port sector. In general, as described in World Bank (2007), the main stakeholders expect the benefits gained from doing the port reform, as shown in table 5:

Table 5: The Expected Benefit

STAKE HOLDER	EXPECTED BENEFIT
Government	Macro economics benefit: - The increase of internal trade competitiveness; - Improving port efficiency Micro economics benefit: - Reduce the burden on national budgets; - Obtain funds from asset divestment.
Transport and Terminal Operator	- More cost-effectiveness - More business opportunity - Better competitive position
Shippers, Importers, and Exporters	- Reduced port cost and freight rate; - Lower cost of importing-goods; - Enhance competitiveness of exports.
Consumers	- Lower price of consumer goods; - Increase competition among suppliers.

Sources: World Bank (2007)

The term privatization is often identified as the port reform, since many people believe that the characteristics of the private sector often bring a commercial success. Whereas, according to the World Bank (2007), privatization is only one specific form of port reform options. The options that can be selected in the port reform are: modernization, liberalization or deregulation, commercialization, corporatization, and privatization. The World Bank (2007) described each option as follows:

Modernization of port administration and management is a simple way to improve performance by installing several modern tools and equipment, and introduce the more suitable system and working procedures. This option is easily implemented because it does not need to change the fundamental laws and policies. This option is often confronted with the obstacles of bureaucracy, culture, and motivation. Some modernization of the port administration has been attempted for example in Cyprus and France.

Liberalization or deregulation of port service is a reform option which allows the private sector to run some port activities previously operated exclusively by a public monopoly. The most important advantage is that public port operator as an insurance against disruption of service by private port operators. The pitfall of this option includes: temporary competition between public and private port (need for an independent port regulator), cross subsidization, unclear separation of regulatory and commercial roles, and unfair practices. The government of Chile engaged in liberalization by ending the monopoly on stevedoring and land-side cargo handling based on law no. 18032 of 1981. Private stevedoring companies were allowed to operate those activities and were free to negotiate with unions about the manning levels and salaries.

Commercialization is defined with the introduction of commercial principles and practices into the management and operation of Port Authority. Implementation of this option requires a clear performance contract between the government and port management, so that Port Authority has a measurable objectives to run the organization with a commercial basis. This option is often faced with cultural constraints of the former-management to response the changes in the management style. Some of the commercialization of the port administration has ever been attempted for example in China and Mexico.

Corporatization is a transformation of public Port Authority or any portion thereof to the corporation. Port Authority is converted into a legally and financially independent legal entity. Corporatization is essentially a privatization without divestment; aimed at reducing the government control and making the corporate more responsive to the market demands. The pitfalls of this option are bureaucratic obstacles and some political influence to the Board. In Poland, the port corporatization was formed by combining state and local governments in the ownership of port land.

The definition of privatization is very diverse, complex and sometimes controversial. Therefore, an appropriate definition which is sufficiently precise is required in order to avoid differences in the interpretation. For the purpose of having a similar understanding, according to UNCTAD (1998), privatization can be defined as follow:

> *"**Privatization** is the transfer of ownership of assets from the public to the private sector or the application of private capital to fund investments in port facilities, equipment and systems" (UNCTAD, 1998: 1)*

Privatization in the port sector may be partial or comprehensive, but most of them are partial privatization. Full port privatization that has ever been carried out in the UK is a well-known case. The reasons for privatization, as discussed by the World Bank (2007), are as follows:

- Eliminate the trade barriers;
- Exploit the efficiency and expertise of the private sector;
- Eliminate the political interference;
- Reduce public sector budget;
- Reduce the expenditure of port labor;
- Other objectives such as encouraging competition and obtained revenue growth.

Partial privatization of the port is more commonly performed than comprehensive privatization, due to successful balancing of public and private interests and alignment with port reform objectives. For the implementation of partial privatization, the World Bank (2007) described a spectrum of port reform tools into different types such as: outsourcing, management contracts, lease and rent contracts, full concessions (BOT, BOOT, etc), Built Own Operate (BOO), divestiture by license, and divestiture by sale.

2.5.1 Reform of Port Authority

In many countries the functions of the Port Authority are directly under government auspices. This is done because the government is interested in providing basic infrastructure, and considers the port as a strategic position. The basic Port Authority functions, as described by van Niekerk (2005), are:

- The landlord function
- The policy making function
- The traffic control function
- The marketing function
- The human resource development function

Because the Port Authority is maintained under the auspices of the government, private sector participation in port infrastructure investments will never happen unless the government revokes the monopoly rights of the Port Authority. This is still maintained even though the Port Authority is not able to optimize the basic functions of the port and optimize the use of land without rent maximization.

Government control in the port varies depending on port management model that is applied. The ILO has identified government control in several countries at the Port Authority as quoted by Haralambides and Veenstra (1997), as follows:

Table 6: Government Control in Port Authorities

	Europe (%)	South & Central America (%)	South East Asia (%)	Global (%)
Expense reports	32	25	55	32
Budgets	47	37	50	47
Profit targets	21	--	40	28
Investment plans	37	12	45	44
Others	5	12	10	8

Source: Haralambides and Veenstra (1997)

Port Authority reforms may be carried out by the corporatization for example. Port of Rotterdam, as informed in its website http://portofrotterdam.com/, has been transformed into a corporate by establishing a public limited company with two shareholders: the Rotterdam municipal and the Dutch State.

The reasons of Port Authority reform, as described by van Niekerk (2005), are as follows:

- To support good governance
- To do business with a shorter bureaucracy
- To avoid the need for government funding by affording infrastructure from port revenues

2.5.2 Reform of Terminal

From several considerations for port terminals reform, one of the main considerations is to obtain higher efficiency in terminal activities. The reform process requires private sector involvement in terminal operations. Technical improvement and efficiency are usually associated with business criteria, and if necessary, requires private participation.

Van Niekerk (2005) introduces five different forms of private participation in the port terminal reform as follows:

- management contracts
- lease contracts
- concessions
- joint ventures
- built operate transfer (BOT) agreements

Providing opportunities for the private sector (privatization) in the management and operation of the terminals can be distinguished based on the level of government involvement, as shown in detail in table 7 below:

Table 7: Privatization options

ASSETS	OWNERSHIP	FINANCING	OPERATING	PAYMENT
Management contract	Public	Public	Public	Management fee
Lease contract	Public 1)	Public/ private	Public	Rental/ license fee
Concession	Public	Private	Public	Concession fee
Joint Venture 2)	Public/ private	Public/ private	Public/ private	Share profits
BOT 3)	Private	Private	Private	Concession fee

Source: Van Niekerk (2005)

Notes:

1) Supra structures invested by private companies will be taken over by Port Authority at the end of the concession period.

2) JVC is possible to establish with two or more of the private companies

3) This required guarantee-demand and potential size of facility

2.6 Business Strategy

There are many tools and methods used in designing the company's business strategy. The design of business strategy starts from formulation, implementation, and then evaluation. Tools and methods are usually adjusted with the internal and external factors affecting the company. According to David (1995) strategic management is the art and science applied by an organization to formulate, implement, and evaluate cross-functional decisions in order to achieve its objectives.

The aim of this thesis is to assess the strategic response by IPC II in connection with the issuance of new legislation, so the study will be limited to the formulation of corporate strategy. Framework of strategy formulation is shown in figure 3 below.

<table>
<tr><td colspan="5">STAGE 1: THE INPUT STAGE</td></tr>
<tr><td colspan="2">External Factor Evaluation (EFE) Matrix</td><td colspan="2">Competitive Profile Matrix</td><td>Internal Factor Evaluation (IFE) Matrix</td></tr>
<tr><td colspan="5">STAGE 2: THE MATCHING STAGE</td></tr>
<tr><td>Threats Opportunity Weaknesses Strengths (TOWS) Matrix</td><td>Strategic Position and Action Evaluation (SPACE) Matrix</td><td>Boston Consulting Group (BCG) Matrix</td><td>Internal-External (IE) Matrix</td><td>Grand Strategy Matrix</td></tr>
<tr><td colspan="5">STAGE 3: THE DECISSION STAGE</td></tr>
<tr><td colspan="5">Quantitative Strategic Planning Matrix (QSPM)</td></tr>
</table>

Source: David (1995)

Figure 3: The strategy formulation framework

In stage I, the input stage, the company considers the existing internal and external factors to see the relative business position of the company. For this purpose, the company usually describes the business mapping both corporate mapping and business segments mapping.

According to David (1995) Stage 2 is often defined as a match -made by the company- between internal resources and skills with the opportunities and risks created by internal factors. This matching stage is comprised of five techniques; they are: the TOWS matrix, the SPACE Matrix, the BCG Matrix, the IE Matrix, and Grand Strategy matrix.

The Threats Opportunities Weaknesses Strengths (TOWS) matrix is a tool to develop four types of optional strategies: Strength Opportunity (SO) strategies, Weakness Opportunity (WO) strategies, Strength Threat (ST) strategies, and Weakness Threat (WT) strategies. The key success to use the TOWS matrix is to meet the internal and external factors in order to set a strategy. Each strategy in figure 4 can be described as follows:

	STRENGTH – S 1. 2. 3. List strengths 4. 5.	**WEAKNESS – W** 1. 2. 3. List weaknesses 4. 5.
OPPORTUNITY – O 1. 2. 3. List opportunities 4. 5.	**SO STRATEGIES** 1. 2. Use strengths to take 3. advantage of 4. opportunity 5.	**WO STRATEGIES** 1. 2.Overcomes weaknesses 3.by taking advantages of 4.opportunity 5.
THREATS – T 1. 2. 3. List threats 4. 5.	**ST STRATEGIES** 1. 2. Use strengths to avoid 3. threats 4. 5.	**WT STRATEGIES** 1. 2. Minimize weaknesses 3. and avoid threats 4. 5.

Source: David (1995)

Figure 4: The TOWS Matrix

SO strategies are implemented by optimizing the company's internal strengths to take advantage of external opportunities. Companies that are in the position where their internal strengths can be used to take advantage of external opportunities have a great chance to develop their business opportunity. In fact, companies that are in a position of WO, ST, and WT strategies generally seek to be able to move toward the SO strategic position.

WO strategies are implemented by improving internal weaknesses to take advantage of external opportunities. WO strategies also indicate that there are opportunities that can be achieved by a company if it plans to improve internal weaknesses.

ST strategies are designed to anticipate external threats by using internal strengths. Companies that are in this position often apply a diversification strategy.

WT strategies are often called defensive strategy. This may happen if the company has internal weaknesses and faces the external threats. The examples of WT strategies are mergers, bankruptcy, restructuring, or liquidation.

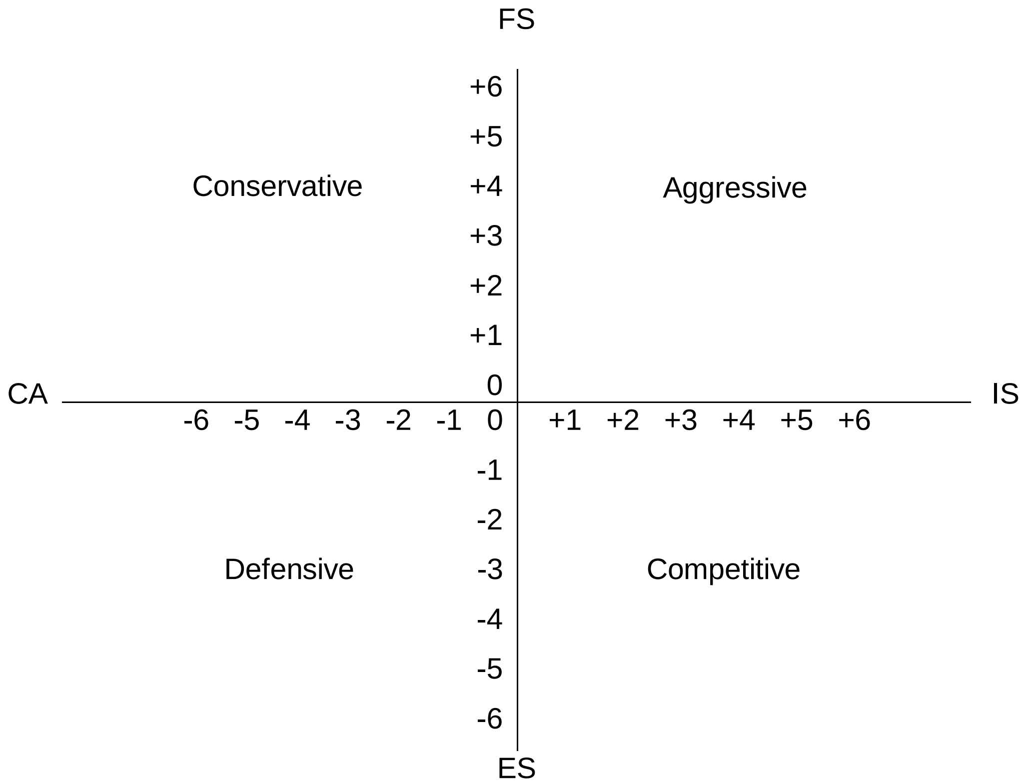
The Strategic Position and Action Evaluation (SPACE) Matrix is described by combining the internal factors and external factors. Internal factors have two dimensions namely financial strength (FS) and competitive advantage (CA), while external factors consist of two dimensions, i.e. environmental stability (ES) and industry strength (IS), as illustrated in figure 5. Four dimensions of the two factors are major determinants of the company's strategic position.

Aggressive quadrant in the SPACE Matrix is an ideal position for the company. Companies that stand in this position have a strong internal strength and exist in the industry strength. Hence, they are able to use their internal strengths to take advantage of external opportunities, to overcome internal weaknesses, and avoid external threats. (David, 1995)

Companies are in the conservative quadrant if they have a strong internal strength but there is a competitive external environment. Therefore, they tend to remain in their basic competencies and avoid the excessive risk.

Companies are in the defensive quadrant if they have a lot of internal weaknesses and external threats. Therefore, they have to improve their internal weaknesses and avoid the risk of external threats.

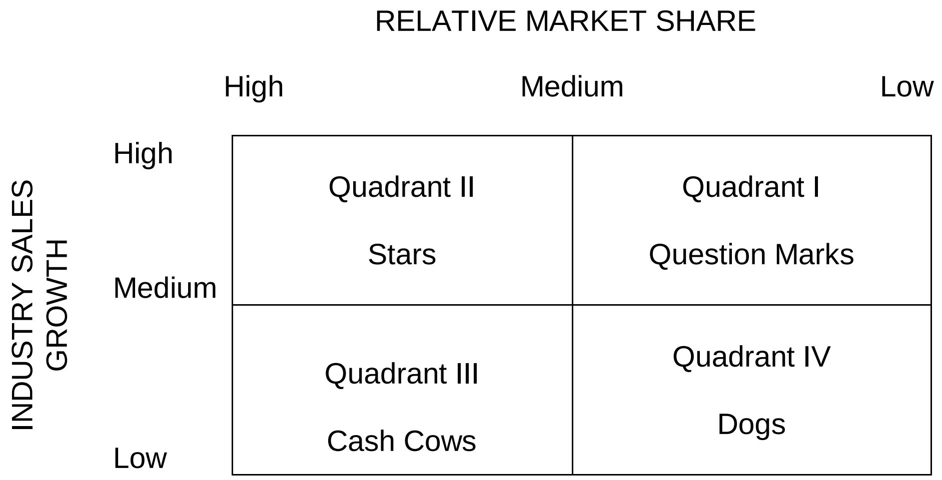
Companies in the competitive quadrant should focus on their competitive strategies to challenge the external conditions.



Source: David (1995)

Figure 5: The SPACE Matrix

Like other two-dimensional matrices, The Boston Consulting Group (BCG) matrix is one technique for matching between internal and external factors. Internal factors are represented by the relative market share and external factors are represented by the industry sales growth, as shown in figure 6 below.



Source: David (1995)

Figure 6: The BCG Matrix

Each quadrant of the BCG matrix has its own terms. The four terms are question marks, stars, Cash Cows, and dogs.

Question Marks - in this quadrant, the firm has a low market share but there is a high demand.

Stars - This quadrant is an ideal position for a company, because it has a long-term opportunity to grow with a dominant market share.

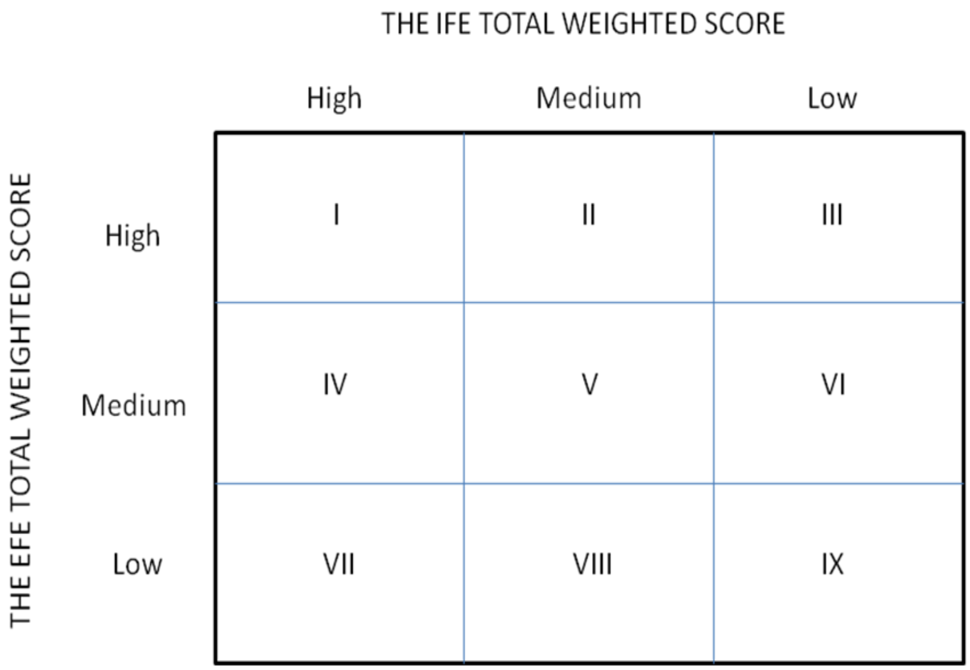
Cash Cows - This quadrant illustrates the position where a company has a dominant market share, but competes with other companies in the low industry sales growth.

Dogs - companies that are in this quadrant have no hope to survive, they have relatively low market share and compete on the low industry sales growth

The Internal External (IE) matrix has some similarities with the BCG matrix; they both place the organization divisions in the schematic diagram. Both are also often called portfolio matrices (David, 1995). IE matrix consists of nine of positioning as illustrated in figure 7.

IE matrix puts organization divisions based matching between two variables, the IFE total weighted scores and the EFE total weighted scores. Therefore, each division should be firstly assessed based on IFE and EFE matrix.

There are nine areas available in IE matrix, then divided into three main groups and each group has a different strategy namely: grow and built which is appropriate for area I, II, and IV, hold and maintain which is appropriate for area III, V, and VII, and harvest or divest which is appropriate for area VI, VIII, and IX.



Source: David (1995)

Figure 7: The IE Matrix

Note:

- I, II, IV = Grow and built
- III, V,VII = Hold and maintain
- VI, VIII, IX = Harvest or divest

The grand strategy matrix is one of the most popular matching tools for designing alternative strategies. The grand strategy matrix as illustrated in figure 8 is influenced by two evaluative variables: competitive position and market growth. All companies can be placed in one of four strategic quadrants.

Quadrant I is the ideal strategic position for companies due to their strong competitive position and high market growth. Companies should devote all efforts to conduct an expansionary strategy to optimize their comparative advantages in order to take advantage of high market growth.

Quadrant II is a strategic position where a company has a weak competitive position but there are potential business opportunities in a rapid market growth. The strategy adopted depends on how strong the company considers their competitive position to compete in the market, but if the company has a very weak competitiveness, it is better to choose a strategy of divestiture or liquidation.

Quadrant III is a strategic position where a company has a low competitive position and competes at the low market growth. Companies must take a radical change to avoid more bankruptcies.

Quadrant IV is a strategic position where a company has a strong competitive position but there are limited business opportunities in a slow market growth. Companies should take a diversification strategy to penetrate into the markets which have low growth.

RAPID MARKET GROWTH

WEAK COMPETITIVE POSITION			STRONG COMPETITIVE POSITION
	QUADRANT II - Market development - Market penetration - Product development - Horizontal integration - Divestiture - Liquidation	**QUADRANT I** - Market development - Market penetration - Product development - Forward integration - Backward integration - Horizontal integration - Concentric diversification	
	QUADRANT III - Retrenchment - Concentric diversification - Horizontal diversification - Conglomerate diversification - Divestiture - Liquidation	**QUADRANT IV** - Concentric diversification - Horizontal diversification - Conglomerate diversification - Joint ventures	

SLOW MARKET GROWTH

Source: David (1995)

Figure 8: The Grand Strategy Matrix

Chapter 3: Research Design

As already mentioned in chapter 1, the research methodology for this thesis consists of literature studies, field research, and case study. However, to conduct the research we need to understand the definition of research in order to prepare a proper research design.

Knowing and understanding of the research is necessary in order to obtain the expected results of the research. According to Sekaran (2003) research can be described as activities that are conducted in an organized, systematic, based on the database, critical, objective and scientific in order to get the answers or solutions from the research questions.

Chapter 3 will describe the research design consisting of general approach, preparation of data collection, evidence collection, evidence analysis, and reporting. Description of the sub-chapter is based on theoretical references that contain the ideal research design. However for the purpose of the thesis, each phase in the sub-chapters will be tailored to the needs of the research.

Research design is logically arranged to relate the data collected with the initial research questions. Therefore, according to Yin (2009), a case-study investigator must be able to maximize four aspects of quality of design: construct validity, internal validity, external validity, and reliability.

3.1 General Approach

The five main elements of the research design, according to Yin (2009), are study questions, propositions, unit of analysis, logical relationship between the data with the proposition, the criteria for interpreting findings.

A set of initial study questions in a research becomes necessary to start the research. These initial questions need to be answered and research takes a role in the process of answering the questions. The initial study questions in this research are as follows:

- What kind of port reform that might be performed based on the new shipping law? And how broad is the opportunity for a private company to participate in the port business?
- Whether there are any fundamental changes on the role of IPC II and private companies in the management and operation of the port sector.
- Whether IPC II is able to design a strategic response to anticipate the changes in shipping law?

Considering that there are many obstacles in the writing of this thesis, research limitations will be made so that the research can be conducted more focus to find solutions to the research questions. The limitations of the research are as follows:

Data sources - the sources of data can be classified into two groups, namely primary and secondary data. In this research, secondary data is obtained from a literature study and website searching. These data include port reform toolkit from the World Bank, the old and the new shipping law, several papers in journals discussing port reform; some macro-economic indicators of data from the National Statistics Agency; The long-term plans; and financial statements of IPC II. Primary data are collected through interviews with officials of the Department of Transportation and the Board of Directors of IPC II. The primary data is expected to be obtained as updated information on the concept of rule of the Minister of Transportation as a derivation rule from the shipping law, the aspiration from the government in the implementation of these legislations, and readiness of IPC II to face the implementation of shipping law.

Location - The research object is located in Indonesia. However, the research is conducted in the Netherlands and in Indonesia. Research in the Netherlands is the study of literature and secondary data collection, while the research in Indonesia is aimed at obtaining primary data.

3.2 Preparing Data Collection

Setting up data collection is not an easy task; we first need to understand the research questions that have been prepared and the draft of research design that has been created. If they are not well-prepared, everything that has been done since the beginning would be futile and research activity will not get anything.

The success of a research is largely determined by the ability of researchers and the skill of investigators to gather evidence. Unfortunately, there is no assessment to determine whether someone is a good investigator for a particular case or he or she does not has enough ability as an investigator. However, according to Yin (2009), an investigator needs to have the following basic skills as follows:

- A good investigator should be able to construct the proper questions and interpret answers;
- A good investigator should be a good listener without being affected by personal subjectivity;
- A good investigator should be adaptive and flexible;
- A good investigator should have a strong understanding of the issues being studied;
- A good investigator should be unbiased by preconceived notions.

In preparing this thesis, the author also acted as a research investigator. Therefore, with all its limitations, in conducting the research, the author will always base on five basic skills.

3.3 Collecting Evidence

Research case studies may be based on different sources of evidence. Evidence can be obtained from various sources, forms and places. Six sources of evidence commonly used in case studies - as described by Yin (2009) - are documentation, archive records, interviews, direct observation, participant observation, and physical artifacts. Meanwhile evidence may be obtained from two different sources. It is prevalent in the evidence gathering stage. The problems may arise if two evidences are found from two different sources, but they are contradictory. Yin (2009) describes various examples of evidence from each source of evidence as shown in table 8.

The data collection is not a simple job even though we already understand the six sources of evidence. Three principles of data collection that are introduced by Yin (2009) will assist in determining the validity and reliability of the evidence collected. These three principles are:

- use multiple sources of evidence
- create a data base of study
- Maintain chain of evidence

Table 8: Variety of documents

Source of Evidence	Variety of Documents
Documentation	- letters, memoranda, email correspondence, other personal documents; - agendas, announcements, minutes of meetings, other written reports of events; - administrative documents, progress reports, other internal records; - formal studies; - New clippings, other articles.
Archive records	- public use files; - service records; - organizational records; - maps, charts; - survey data
Interviews	- verbal report; - recording device
Direct observation	- observational evidence
Participant observation	- anthropological study
Physical artifacts	- technological device - tool or instrument - work of art; - other physical evidence

Source: Yin (2009)

3.4 Analyzing Evidence

Starting the phase of study analysis is sometimes difficult to do because we are often confused with how to start and from where the starting point to begin. Miles and Huberman as cited by Yin (2009) describe the analytical manipulation and summarized as follows: classify the information into different groups, make the matrix categories, make the display to test the data, examine the complexity of such tabulations, putting the information chronologically.

In the case study analysis, Yin (2009) also introduces four general strategies and five analytical techniques as shown in the table below:

Table 9: General strategies and analytical techniques

General Strategies	- Relying on theoretical propositions - developing a case description - using both qualitative and quantitative data - examining rival explanations
Analytical Techniques	- pattern matching - explanation building - time series analysis - logic model - cross-case synthesis

Source: Yin (2009)

Data analysis in this case study is divided into two groups: first, related to initial research questions number 1 to 3, the second, relating to the initial research questions number 4.

Data analysis for research questions number 1-3 is mostly done through a matching mechanism. Matching will be made between articles in the legislation to examine whether there are articles that contradict each other, and whether there are multiple interpretations in understanding the articles. Matching will also be done between the legislation with the literature to find out how big the suitability of the legislation with the collected literature. Summary of matching analysis is shown in table 10 below.

Table 10: Matching analysis

Research question	Analytic technique	Data	Source
What kind of port reform?	Pattern matching	- Port reform toolkit - Shipping law - Derived regulation (concept)	Documentation Archival record Interview
How broad is the opportunity of private companies?	Pattern matching	- Port reform toolkit - Shipping law - Derived regulation (concept)	Documentation Archival record Interview
What are the changes on the role of IPC II?	Pattern matching	- Port reform toolkit - Shipping law - Derived regulation (concept)	Documentation Archival record Interview

Source: Author

Research continues to find the primary data through interviews. Interviews will be conducted with experts or competent persons in this law and have a lot of information about the derivative regulations, such as Head of Planning, Department of Transportation; Corporate Lawyers, and IPC II. Interviews will be conducted to obtain data and the latest information about the establishment process of derivative regulations and the will of government to implement this Law.

The expected result of this matching is useful to formulate some matters as follows:

- Type of the port reform in Indonesia, as desired by this law;
- The opportunity of private companies to participate in the management and operation of port sector;
- Legislative scenarios for the implementation of this law;
- Possible role of IPC in the implementation of this law.

Data analysis for research question number 4 is related to the IPC II's strategic anticipatory response to the implementation of the Law. The strategic response consists of several alternative of IPC II positioning obtained from the matching between the potential legislative scenario and the possibility of IPC II role.

The next research is to pursue the primary data through interviews. Interviews will be conducted to Senior Manager of Strategic planning of IPC II. Interviews will be held to obtain data and the latest information about the anticipative planning by the IPC II in respect of the implementation of this law. Summary of this analysis is shown in table 11 below.

Table 11: Analysis of strategic response

Research question	Analytic technique	Data	Source
How does IPC II design its strategic response?			
- Business portofolio	Matching	- Port traffic - Financial report - IPC II's long-term planning	Archival record Archival record Archival record and interview
- Matching analysis	Matching	- Internal factor - External factor - IPC II's long-term planning	Documentation Documentation Archival record and interview
- Traffic projection	Time series	- Port traffic - Macro economy indicator	Archival record Documentation
- Business strategy	Matching	- Business portofolio - Matching analysis - Traffic projection	Documentation Documentation Documentation

Source: Yin (2009)

In this phase, data analysis is conducted to formulate a strategic response to the IPC II, which consists of the following things:

- Analysis of the company's portfolio, to find the mapping of IPC II, the mapping of its branches, and the mapping of its business segments.
- Analysis of traffic projections, to obtain the estimate of cargo which through the port and its growth.
- Matching analysis, in order to get a figure of the relative position of the IPC II in the port sector industries.
- Setting up the appropriate strategic response of the IPC II.

CHAPTER 4: Case Analysis

Chapter 4 contains the case analysis relating to the enactment of the new Shipping Law in Indonesia and the implementation of this legislation. This new legislation is often referred to as port reform in Indonesia as well as the gateway to the participation of private companies, replacing the previous legislation that has legitimized the monopoly of port management. IPC obtain monopoly rights in port service, but the IPC should maintain the port infrastructure and invest on port infrastructure with their own expenses.

Analysis of the differences between the new legislation and the previous legislation will be done in order to obtain a clear description about some of the following matters:

- The role of each party in port management;
- The type of port reform;
- Government readiness;
- The opportunity of private companies;
- The legislative scenarios; and
- The possible role of IPC II.

This chapter attempts to answer the initial research questions as follows:

- What kind of port reform may be performed based on the new shipping law?
- How wide will be the opportunities for private companies to participate on port business?
- Whether there are any fundamental changes of the current IPC II's role and private companies in the management and operation of the port sector?

4.1. Changes on the role of each party

Port management involves the role of central government at the macro level up to the role of the port operator at the micro level. The role of each party (the central government, port authorities, port operators, and transportation ministries) in the new legislation and previous legislation is summarized in tables 12.a – 12.d below.

The central government should play its role to focus on macro-economic objectives. In general, the central government has a role in formulating seaport and maritime policy. However the shipping laws do not regulate clearly the role of central government in that regard. As stated in article 80 of the Shipping Law (2008), the Government's activities in the port are: regulation, coaching, control and supervision of port activities; safety and security of shipping and / or; customs; immigration; and quarantine.

Previously, the central government had a role in terms of the port and port service activities. Under the new legislation, the central government only plays a role in governmental activities, such as immigration, quarantine, and custom. Some authorities have been delegated to local authorities, for example the master plan for feeder ports will be established by Local Governments. Devolution of some authority in various sectors from central government to local authorities has been widely carried out following the regional autonomy law. Since the enactment of the Regional Government Law No. 32 (2004), some of central government authorities have been delegated to local governments.

Table 12.a: Central Government's role

Parties	Previous Legislation	New Legislation
Central Government	- as coordinator of port service activities, including: the safety of shipping, customs, immigration, quarantine, security; - As an operator of public ports, however its implementation can be delegated to state-owned companies - give the approval of new port construction plan; - determine the location of public ports; - Establish the types, structures, and group of port tariff (article 32).	- Play a role only in governmental activities. - some of the central government's role has been delegated to local governments; - not involved in port operator

Source: Shipping Law (1992 & 2008)

The role of the Minister of Transportation in port management is policy-maker. The new legislation gives such role to the minister of transportation by providing the right to establish and control the port authorities. The Minister of Transportation also determine the area of the public ports, accompanied by defining the port master plan after obtaining recommendations from governors and mayors.

Table 12.b: Minister of Transportation's role

Parties	Previous legislation	New Legislation
Minister of Transportation	Minister of Transportation as government representatives has a role in the technical aspect of port development and give approval for the operation of a port.	- Determine the area of public port; - Minister together with the Local Governments determine the port master plan; - Establish port authority

Source: Shipping Law (1992 & 2008)

Under the hierarchy of law in Indonesia, after a Law is enacted, it should be followed by some derived regulations. Government regulations are the first derived regulations; they describe the contents of the Law but they cannot be used directly as a reference for the implementation of the Law. Therefore, it is necessary to determine a minister regulation as an implementation of the Law. In the context of Shipping Law, the Minister of Transport also has a role to issue the minister regulations as references to implement the shipping laws and as the explanatory of government regulation.

The roles of port authorities -that are described in both legislations- are summarized in Table 12.c. Under the previous legislation, port authority bodies were not regulated therein. The role of port authorities in giving the concession was run by the Government. In practice, however, it was allowed to delegate some of the role to the state owned companies (IPC). Therefore, IPC had a unique role as a port operator as well as port authority. IPC was given the right to manage land in the port area and allowed to operate through a partnership with private companies. Partnerships were conducted through joint operation, strategic partnership, and giving concessions to operate port facilities.

Table 12.c: Port Authority's role

Parties	Previous legislation	New Legislation
Port Authority	- Port authority bodies were not regulated, and therefore the port authority did not exist. - The central government held the role as a port authorities and its implementation can be delegated to the State Owned Companies (IPC)	Port Authority will be established in the commercial ports. The Port Authority gives the concessions to port operators. They are responsible for: - Provision of land and waterside of port; - Provision of and maintenance of the breakwater, navigation channel, and road networks; - Provision and maintenance of the facilities of navigation aids; - ensuring the security in the port; - ensuring and maintain environmental sustainability at the port; - preparing port master plan - proposing tariff to be specified by Minister, - ensuring the smooth of cargo flow

Source: Shipping Law (1992 & 2008)

Establishment of port authorities is a new matter which is regulated in the new laws. The role of port authorities that has been played by IPC will be taken over by the Port Authority, so that IPC will be more focus on the port business and Port Authority will be more focus to perform its role.

Port Authority acts as a representative of the Government to give a concession or any other form of contract to port companies to conduct business activities in the port. According to the Shipping Law (2008), the Port Authority is responsible for the following matters: providing land and waterside of the port; providing and maintain the breakwater, navigating channels and road networks, providing and maintaining the facilities of navigation aids, ensuring the security in the port, ensuring and maintaining the environmental sustainability at the port, preparing the port master plan, proposing a tariff structure to be specified by Minister, and ensuring the smooth treatment of cargo flow. To conduct its tasks and responsibilities, it is given several roles as follows:

- regulate and supervise land use and waterside of port;
- oversee the use of the port area;
- regulate vessel traffic out and into the port through pilot service and
- Establish the standard performance of service.

Port Authority is a new institution which has not been established and has not been filled with qualified human resources. Shipping Law (2008) requires that all staff of port authorities should be civil servants. There is no opportunity for a professional to work in the port authorities, because, as reported by USAID (2008), the Minister of Transportation has stated that the port authority personnel will be filled with employees of the directorate general of sea transportation and employees of port administrator.

Table 12.d: Port operator's role

Parties	Previous legislation	New Legislation
Port Operator	Not stated explicitly who the port operators are. Basically it was done by the Government however it could be delegated to state owned companies (IPC)	Port operation could be performed by state-owned companies, municipal-owned companies, or private business entities. - Provide and maintain the proper port fracilities; - Provide port services; - Ensure the security and safety at their port facilities.

Source: Shipping Law (1992 & 2008)

In the Shipping Law (1992), it was not stated clearly who the port operators are; basically the law mandated that the port operations were conducted by government. On the implementation level, however, government could delegate its authority to the state-owned companies (IPC). Thus, IPC had a dual role as port operator as well as port authority. This dual role also causes IPC have a double focuses. As a port operator, IPC should focus on maximizing profits and increasing market share. Meanwhile, as the port authority, IPC should focus on the availability of facilities and maintaining competitive pricing.

According to the Shipping Law (2008) IPC's dual role will be split into two sections, IPC still have a role as the port operator, while the role of port authority will be played by institutions to be established, that is Port Authority. Port operators conducted by the port corporation based on concessions or other forms given by Port Authority. The legislation has opened up vast opportunities for all port corporations to become port operators. Opportunities are not only given to IPC, but also given to local government's companies and private companies. Port operators have several responsibilities, as referred to article 94 that are:

- providing and maintaining the proper port facilities;
- provide services to users according to the established service standards;
- maintain the security, safety, and order at the port facility is operated;

- participate in maintaining safety, security, and order regarding the water transportation;
- maintain environmental sustainability;
- fulfill their obligations in accordance with the concession agreement; and
- Comply with all laws and regulations, both nationally and internationally.

4.2. Private Sector Participation

Participation of private companies in the port business has actually been stipulated in the Shipping Law (1992). Table 13 below shows that participation of private companies which was originally through a partnership with the IPC, now are done through the mechanism of concession by Port Authority. Private companies may participate in port business through two different ways that are available, the first is participation in public ports and the second is participation in special ports.

Indonesian Legal Entity or private companies may participate in the business of public port on the basis of cooperation with the state owned companies (IPC) which conduct the operational of public ports. Such opportunity has been exploited by some private companies by cooperating with the IPC.

Starting in 1994 IPC provide opportunities for stevedoring companies to operate conventional terminal to handle general cargo, even nowadays most of the conventional terminals in Tanjung Priok Port, the biggest port in Indonesia, have been operated by private stevedoring companies. Jakarta International Container Terminal (JICT), the largest container terminal in Indonesia, has been cooperated with Hutchinson through the strategic partnership since 1999 with a 20-year concession period.

Shipping Law (2008) provide wider opportunity to private companies to operate terminals at public ports through concession given by Port Authority. Private companies can obtain concessions from Port Authority directly without going through IPC as an intermediary. Problem that has not been clear until now is which ports have been acquired by Port Authority and where exactly the private companies will be allowed to participate.

Table 13: Private companies' role

Parties	Previous legislation	New Legislation
Private Companies Participation	Private companies could participate on port business through cooperation with IPC.	Private companies could participate on port business through cooperation with Port Authority.

Source: Shipping Law (1992 & 2008)

4.3. Participation through Special Port

Another way for private companies to be able to operate a port is through a special port. Special port could be built to support certain activities which are usually related to industry that requires the supply of raw materials in the right amount and timely, and requires a certainty in the distribution of goods produced. This port is allowed to operate only to handle their own cargoes, and not permitted to handle third party cargoes. According to Shipping Law (1992) the operations of special terminals have to be cooperated with the IPC. The consequence of this cooperation is a revenue sharing to be paid by special port to IPC, although IPC did not invest anything in that special port.

According to the new law, private port is still not permitted to handle third party cargo except in emergencies with the permission of Minister of Transportation. The new law allows a special terminal to be converted to become a public terminal. According to Article 106, special terminal that has not operated based on permission can be transferred to the Government or proposed to change its status to a special terminal to support the other main business or become a public port.

4.4. Type of port reform

Port reforms in Indonesia have occurred since a long time ago; although they did not start since the enactment of Shipping Law (2008). The chronology of port management from 1960 until nowadays illustrates that there has been changes in port management model and port reform strategy.

4.4.1. Chronology of port management

Since 1960, public port management in Indonesia has been conducted by state owned companies under control of the Government. The form of state owned companies have been changed several times since 1960 until 1993, following the changes in laws and government regulations. As described in IPC II long-term plan (2009-2013), the changes are as follow:

From 1960 to 1963, the management of public port was carried out by the Government and its implementation through State Enterprise (PN) Port I s / d VIII. It was based on Law number 19 of 1960.

In 1964 port management was separated into operational aspect and commercial aspect. The port operation was coordinated by the Port Authority, while the commercial aspect remains under the management of State Enterprise (PN) Port I to VIII. This situation continued until 1969.

Based on Government Regulation No. 1 of 1969 and Government Regulation No. 18 of 1969 State Enterprise (PN) Port was dissolved, and Port Authority was changed into Port Business Body (Badan Pengusahaan Pelabuhan/BPP) which had authority to manage public port.

In 1983, under Government Regulation No. 15 of 1983, BPP was changed into Public Corporation (Perum) Port I to IV, which managed public commercial ports, while the management of non-commercial ports managed by the Technical Implementation Unit (UPT), under the control of Directorate General of Sea Transportation.

Public Corporation (Perum) lasted until 1992 when changed into Indonesian Port Corporation I, II, III and IV. Public Corporation Port II had been changed into PT (Persero) Indonesian Port II, based on Government Regulation Number 57 of 1991. The change into Indonesia Port Corporation II was an effort to improve business performance by providing greater flexibility for taking and implementing commercial decisions.

4.4.2. Port Management Model

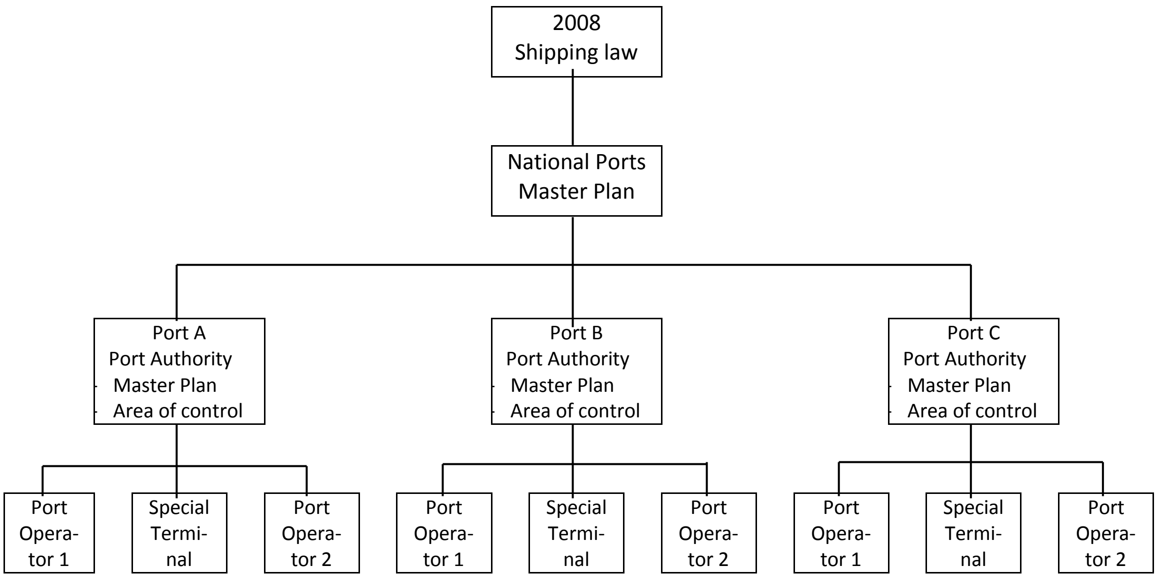
Port management cannot be separated from public interests and private interests, although there is no precise measurement on how large the portions of each interest should be. Port management model could be dominated by public sector as well as be dominated by private sector. The World Bank has categorized port management model into four types namely: Public Service Port, Tool Port, Landlord Port, and Private Service Port.

Before 1992 the port management model in Indonesia was a public service port. There was absolutely no participation of private companies because all aspects of port management were handled by the government. All investments in infra-and supra-structures in ports are the responsibility of the government and allocated from state budget. Port labors were also provided and coordinated by the government.

Starting in 1992 after the Shipping Law (1992) was enacted; private companies began to be allowed to participate in the management of ports. Thus, the port management model also began to change toward the tool port and landlord ports, although on that law itself was not clearly mentioned what port management model was desired.

One thing that did not quite fit in the port management system in that period was who was actually responsible for public interest? Port authorities should take that role, however the problem was no port authority body was formally established. Although not mentioned explicitly, IPC had been given the authority delegated from the government to run a partial role of port authorities. Accordingly, in order to be able to participate in port management, private companies have to cooperate with the IPC.

Shipping law (2008) mandated the government to establish a port authority that acts as a representative of the Government to give concessions or any other form of licenses to port enterprises to conduct business activities in the ports. As a common way in landlord system to split the responsibilities across public and private sectors, the Port Authority acts as regulatory body and landlord, and private companies as operators in port operations. Port management model mandated by this law is as shown in figure 9 below.



Source: 2008 shipping law

Figure 9: Port management structure

4.4.3. Port Reform Strategy

Port reform in Indonesia began in 1969 when the government disbanded the port authorities and replaced it with the Port Business Body (Badan Pengusahaan Pelabuhan / BPP) that had the authority to manage public ports. The establishment of BPP was an embryo of commercialization of port management. Commercial principles have begun to be introduced to the BPP, although BPP still focused more on public services. The problem faced at that time was the readiness of human resources to change their mindset as businessmen because all personnel of BPP were civil servants.

The process of commercialization of port management in Indonesia continued when BPP was changed into Public Corporation (Perum) in 1983. Similar to the BPP, Perum is also state-owned company which have a double mission as a public service and profit-oriented company, but business mission carried by Perum was larger than BPP business mission. Perum had greater flexibility than the BPP, including the management of human resources. The status of Perum employees changed from civil servants to be employees of firms with different wage standard.

The process of commercialization of port management in Indonesia still continued when Perum changed into PT (Persero) Port of Indonesia (Indonesia Port Corporation / IPC) in 1992. IPC as a Limited liability company was managed as a business-oriented private company. IPC had the flexibility to manage resources, including financial autonomy. IPC also recruited its own employees with the required criteria, rather than through the mechanism of civil servants recruitment.

In the period 1992-2008 the port reform started with the liberalization. As defined by the World Bank (2007), liberalization and deregulation are the reform allowing private companies to operate in an area where previously only the public sector was allowed to operate. Private enterprises took over parts of the port activities which formerly were operated only by the IPC. Liberalization was carried out not only at container terminals but also in conventional terminals. The example of liberalization in the port sector is the operation of JICT by the Hutchinson Group, making it possible to compete with other container terminals operated by the public port organization.

More than 50% of conventional terminals at Tanjung Priok port were operated by private stevedoring companies, while a few other terminals were operated by PT. Multi Terminal Indonesia (MTI), a subsidiary of IPC. The private stevedoring companies operated the conventional terminals based on the concession agreements for five years period.

There are three container terminals in Tanjung Priok port which are currently operated by private companies; they are JICT, Koja Container Terminal, and MAL Container Terminal. The operation of the second largest container terminal in Indonesia located in the port of Tanjung Perak Surabaya has also been cooperated with P & O since 1999.

Unfortunately, port reform was not accompanied by changes in port management model. IPC still plays a dual role as regulator as well as operator. Unclear separation between the role of regulator and commercial roles could hamper the process of liberalization, and potentially to create unfair competition between terminals.

4.5. Government Readiness

After the Shipping Law (2008) was enacted, there are a lot of assignments for the government to do so that the Shipping Law can be fully implemented. Unfortunately, the Indonesian government has not likely been ready to carry out this legislation up to now. So far, the Government is unable to perform certain clauses in this legislation which actually becomes the obligations of the government, as shown in table 14 below.

There are 48 clauses in the Shipping Law which give mandates to the government to establish government regulations. According to article 347, the government regulations and other implementing regulations of this law have to be specified no later than 1 (one) year since the law was passed, but currently only three government regulations have been established. This is really an unsatisfactory achievement. The implementation of this law might be delayed for a long time because the government has not issued the remaining government regulations.

A key factor in the implementation of this law, especially in port sector, is the establishment of port authority one year after the law applies; however, more than two years since the law applied, Port Authority have not yet formed. Considering the fact that the Port Authority has not been established, there appears uncertainty regarding with this law to be fully implemented.

Table 14: Government obligation

Shipping Law	Mandates	Progress
Article 347	Government regulations and other implementing regulations of this law have to be specified no later than 1 (one) year since the law was effective.	Only three government regulations have been specified. (there are 48 articles in this law which mandates the government to establish the government regulation)
Article 348	Port Authority, Unit of port operator, and harbor master must be established no later than 1 (one) year since this law was effective.	It has not been established
Article 349	National Ports Master Plan must be specified by the Government no later than 2 (two) years since this law was effective	It has not been specified
Article 351	Master Plan of ports should be evaluated and adjusted by this law no later than 2 (two) years since this law was effective.	It has not been evaluated and adjusted.

Source: Shipping Law (2008)

Human resources should be a major concern of the government because the performance of Port Authority depends on the performance of assigned personnel. Other important government obligations are recruiting and placing personnel at the Port Authority. It is not easy to consider personnel who will be assigned to Port Authority, they should be civil servants who have ability and competence in port management.

The requirement that Port Authority staffs should be civil servants is a set back from the port reform, because the role of Port Authority that has been performed by IPC with the commercial principles and practices will be restored to civil servants who generally have different culture and leadership.

While waiting for the establishment of Port Authority, the Minister of Transportation has written a letter which appointing port administrator to run the role of port authorities, although legally Minister of Transportation does not have the authority to conduct such appointment.

The financial aspect is also constraint for the government. This is related to the ability of Port Authority to provide basic infrastructure and operational costs. The Port Authority does not have sources of revenue yet from concession, because it has not acquired land and other asset.

4.6. The opportunity of private companies

The Shipping Law (2008) has opened up vast opportunities for private companies to participate in the port management. There are at least three constitutional options for private companies, as published by USAID (2008).

4.6.1 First Option

The first option is splitting the existing port assets into different companies. This approach is the preferred option for the implementation of privatization in the infrastructure sector that until now has been dominated by the state monopoly. However, in this case, the option is very difficult to take due to political reasons. As noted in the various media reports, weeks before the enactment of the law in April 2008, there were large rejections of the legislation by the union of port workers. The rejection was also raised by IPC and the Ministry of State Owned Enterprises. In response to the rejections, Minister of Transportation has written a letter to the President stating that IPC will only lose the income from ship anchorage, but offset by the cost of dredging taken over by the government. It means that no assets of IPC will be sold to the private sector.

4.6.2 Second Option

The second option is a new investment taken by private companies in the new terminal. This needs an important mechanism to increase the capacity and competitiveness in the mid long-term. However, it will take long time due to some reasons. It will require an increase of the limits of foreign investment in port operations; developing additional basic infrastructure by the government; and the mechanism to give an approval arrangement. The new investors will also be worried that they will not have equal treatment compared to IPC, which is the competitor. Another consideration is a country’s high risk of investment in Indonesia.

4.6.3. Third Option

The third option, is allowing special terminals to handle a general cargo while accommodating their own cargo. Currently, Indonesia has a lot of special terminals that actually can be used directly to compete with IPC. By allowing at least some of the special ports to handle cargo belonging to the third parties will provide some short-term solutions to port and logistic problems in Indonesia, while waiting for the long-term solutions through investment in new capacity. In this case, the port reform is not opened broadly to private companies. Private companies that have a chance to compete with the IPC will be only those who have special ports.

Participation of private companies in the port operation has been accommodated in the Shipping Law (1992) through cooperation with the IPC mechanism as set down in article 26 (2). Currently some cooperation between the IPC II and private companies have been carried out, for example: cooperation between IPC II and

Hutchinson to operate the Jakarta International Container Terminal (JICT); joint operation between the IPC II and Hutchinson in Koja Container Terminal; Cooperation between the IPC II and Mustika Alam Lestari (Portek Group) to operate container terminal 300 in Tanjung Priok, and cooperation between IPC II and private stevedoring companies in the conventional terminals for handling general cargo.

There is no doubt that the new legislation gives wide opportunities for private companies to become port operators, as described in article 91 (5), article 1 (28), and Article 1 (60). But these articles might become ambivalent when confronted with article 344 (3). As mentioned in article 344 (3), business activities in the ports which have already been performed by the State Owned Companies remain to be held by these State-owned Companies. Contradictory of these two articles can be interpreted that the wide opportunities for private companies to become port operators are available only outside the area that has already been run by IPC.

If the wide opportunities for private companies to become port operators are available only outside the area that has been operated by IPC, and considering that constructing the new ports will need huge investment and high risk, then the private companies will be reluctant to invest in the new port development. Therefore, the incremental benefit to private companies due to the enactment of this law is very small. They will be happier to co-operation with the IPC II because they are not overwhelmed by infrastructure investments and superstructure.

4.7. Legislative Scenario

Many articles on the Shipping Law (2008) explicitly state opportunities to private companies to participate in port management. But until now there has not been any action to prepare derivatives regulation and its implementing rules, so how broad the opportunities opened to private companies remains unknown.

Suppose that the Port Authority as a representative of the Government dared to take a radical decision to take over all assets of IPC, and then divide them into several terminals and give a concession to a legal entity (could be private company or state-owned company) to run the ports, then the opportunities for private companies will be widely opened.

If the government retains IPC to keep operating all the terminals at the ports which have been run by the IPC, then the opportunity for private companies to participate in port management is very small. Opportunity is only available for the construction of new port that requires high investment. Private companies do not get any benefit from the new legislation.

Decision making will be taken with political considerations. The decisions made will become a mutually exclusive decision. The decision to widely open the opportunities for private companies means that the Government ignores the political commitment that has been made by government not to sell IPC's assets to private companies, conversely, the decision to keep IPC run all terminals at the ports that has been run by the IPC and limit the opportunity for private companies to be able to participate only in new ports will mean that the Government ignores the expectation of many private companies.

4.8. The possible role of IPC II

The contradictory clauses in the Shipping Law (2008) cause the role of IPC has to be determined in its derivative regulation. Since the derivative regulation has not been issued, the role of IPC is interpreted directly from the Shipping Law as follows:

The first option is IPC II's role remains as it is. IPC still controls all activities in all ports that currently run by IPC, as set down in article 344 (3). This means that no significant changes for the IPC to run its business. This also means that the Law will be applied only to all new ports to be built.

The second option is the trade-off all assets of IPC II that will be taken over by the Port Authority with a concession period given to IPC, as set down in article 344 (2) and its elucidation. The Government will calculate the assets identified as the IPC's assets to be compensated with a concession period to be given by the Port Authority. Meanwhile, the asset that is identified as not belong to IPC will be taken over by the Government without any compensation. A problem that may arise is how to separate assets operated by IPC as the assets owned by IPC and the assets not owned by IPC.

The third option is the IPC acting as a terminal operator. The mechanism to do is that the Port Authority takes over all assets of IPC, divides the port into several terminals, then conducts an open tender to the terminal operators both private and state owned to operate the asset. IPC will be invited as a participant of the auction.

CHAPTER 5: IPC II'S Strategic Response

As discussed in chapter four, there are two legislative scenarios and three options faced by the IPC in the implementation of the Shipping Law (2008). The two legislative scenarios are Shipping Law (2008) providing wide opportunities for private sector participation and Shipping Law (2008) severely limiting opportunities for private sector participation. Meanwhile the three options for the IPC's role are IPC II's role remains as it is; IPC will be given a concession as a trade off of its asset taken over by the Port Authority; and IPC acting as a terminal operator. The first option means that there are no significant changes for the IPC II, the second option means that there is a possible decrease of IPC II's business scale, and the third option requires the IPC II to metamorphose into a terminal operator.

Port reform will have a profound impact on the external business environment in the port industry, and has a great potential to change the constellation of the port business. IPC needs to response that issue. Hence this chapter tries to answer the initial research question, will IPC II be able to design a strategic response to anticipate the changes in the shipping law?

To explore the possibilities of strategic response to be prepared by IPC II to anticipate the implementation of Shipping Law, it is necessary to combine the two legislative scenarios and the three options for IPC II to formulate alternative strategies. The combination resulted in six alternative strategies such as shown in table 15.

. Table 15: Alternative strategies

Possible Role of IPC	Legislative Scenario	
	Scenario 1	Scenario 2
Option 1	Alt 1.1.	Alt 1.2.
Option 2	Alt 2.1.	Alt 2.2.
Option 3	Alt 3.1.	Alt 3.2.

Source: Author

This chapter will begin with a brief review of IPC II's profile, followed by branch mapping analysis and business unit's mapping analysis, and the last part contains IPC II's strategic response.

5.1. IPC II's profile

Management of ports in Indonesia is conducted by four state-owned companies, based on provincial coverage. The four state-owned companies are: IPC I, IPC II, IPC III, and IPC IV. IPC II, which manages port services in parts of Indonesia, was established on December 1, 1992 pursuant to Deed of Establishment No. 3 executed before Notary Imas Fatimah, SH, and the deed of amendment No. 4 dated May 5, 1998 executed before Notary Imas Fatimah, SH. After the Law on Limited Liability Companies (2007) was enacted, IPC must adjust its Articles of Association by executing a deed No. 2 dated August 15, 2008 executed before Notary Agus Sudiono Kuntjoro, SH.

IPC, having its head office located in Jakarta, operates its business in 10 provinces and manages 12 port branches with the port regions, as shown in table 16 and figure 10 below. One of the ports operated by IPC II is port of Tanjung Priok, the Indonesia's largest and busiest port. IPC II also has three subsidiaries, one affiliated company, and one joint operation, namely:

- PT Multi Terminal Indonesia (MTI): PT. MTI is engaged in stevedoring services, container terminal, and warehousing. This company was established on February 15, 2002 where IPC II owns 99% shares and Kopegmar owns of 1% shares. PT MTI operates in port of Tanjung Priok (IPC II's Long Term Plan).

Table 16: Branches

PORTS	PORT REGION	PROVINCE
Teluk Bayur	Muara Padang, Air Bangis	West Sumatera
Pulau Baai		Bengkulu
Talang Duku	Muara Sabak, Kuala Tungkal	Jambi
Boom Baru	Sungai Lais	South Sumatera
Pangkal Balam	Muntok, Belinyu, Sungai Liat, Sungai Selan	Bangka Belitung
Tanjung Pandan		Bangka Belitung
Panjang		Lampung
Ciwandan	Bojonegara	Banten
Tanjung Priok		DKI Jakarta
Sunda Kelapa	Kalibaru	DKI Jakarta
Cirebon		West Java
Pontianak	Sintete, Sambas, Ketapang, Singkawang, Telok Air, Pemangkat, Nipah Kuning	West Kalimantan

Source: IPC II's long term plan

Source: IPC II's long term plan

Figure 10: IPC II's region

- PT Electronic Data Interchange Indonesia (EDII): PT. EDII is engaged in telecommunications services, information technology, electronic data interchange network, the distribution of communications equipment, and installation of communications equipment. The company was established in July 1995 with IPC II's shares amounting to 51% and PT Sisindokom Lintas Buana's shares amounting to 49% (IPC II's Long Term Plan).
- PT. Rumah Sakit Pelabuhan (RSP): PT RSP was established in May 1999; having three hospitals located in Jakarta, Cirebon, and Palembang. In 2003 PT RSP has one more hospital, Port Medical Centre in Port of Tanjung

Priok. The ownership structure is IPC II has 99.43% shares and the remaining 0.57% owned by Kopegmar (IPC II's Long Term Plan).

- PT. Jakarta International Container Terminal (JICT): PT JICT which was established in March 1999 carries out the activities of container terminal services, export / import and transshipment, in port of Tanjung Priok. PT JICT is an affiliated company of PT. Port of Indonesia II (Persero) with 48.9% shares, HPH Group with 51% of shares and 0.1% of shares owned by Kopegmar. HPH obtained a concession for 20 years (IPC II's Long Term Plan).
- Koja Container Terminal: Koja Container Terminal is a joint operation between IPC II having 52.12% of shares and PT OTP having 47.88% of shares and operating since 1998. Based on the report of investment audit conducted by public accountant per December 31, 2005, the composition of investment has changed into IPC II 55.32% and PT OTP 44, 68%. Koja Container Terminal operates facilities include a 650 m long quay with a depth of -14 m lws, and 21.8 ha of container yard (IPC II's Long Term Plan).

Business sectors that are run by IPC II in accordance with Law (2008), consists of two groups of businesses: port services and port-related services. Port services include services to ships, passengers and cargo, while the port-related services include activities that support the smoothness operation and provide added value to the port.

Port service for the ship, passengers and goods consists of:

- Provision and/or service of berthing;
- Provision and/or services of fuel and water services;
- Provision and/or service of passenger terminal;
- Provision and/or service of quay for loading and unloading activities;
- Provision and/or service of warehouse and yard;
- Provision and/or service of terminal for container, liquids cargo, dry bulk, and Ro-Ro;
- Provision and/or service of stevedoring;
- Provision and/or service of distribution and consolidation center;
- Provision and/or services of tugs.

Port-related services consist of:

- Office building;
- Tourism and hospitality facilities;
- Installation of water, electricity and telecommunications;
- Waste treatment;
- Bunkers Services;
- Parking.

Data of IPC II's operational activities which consists of ship calls, cargo flows, container throughput, and passenger flow served by IPC II can be seen in table 17 below:

Table 17: Operational activities

	2005	2006	2007	2008	2009
Ship Call (unit)	57,081	52,788	53,666	54,664	49,629
Ship call (000 GT)	168,020	161,919	160,753	166,606	158,771
Cargo flows (000 ton)	100,677	100,865	108,290	116,167	107,180
Container throughput (000 TEUs)	3,733	3,849	4,141	4.445	4,270
Passenger flows (000)	2,169	1,747	1,551	1,763	1,400

Source: IPC II Annual Report

Over the last five years IPC II's financial profile which consists of the income statement, balance sheet and financial ratios can be highlighted in the following table 18.a. – 18.d.

Table 18.a. Income Statement

	2005	2006	2007	2008	2009
Revenues	1,784.7	1,895.7	2,094.7	2,504.4	2,506.4
Revenue reduction	(142.3)	(151.6)	(126.6)	(47.1)	(7.7)
Operating revenue	1,642.4	1,744.1	1,968.1	2,457.4	2,498.6
Total expenses	758.1	1009.6	898.2	1,144.5	1,164.9
Net Income before taxes	884.3	734.5	1,069.9	1,312.9	1,333.7
Income taxes	(181.6)	(157.5)	(209.4)	(255.4)	(378.4)
NI before minority interest	702.7	577.0	860.5	1,057.6	955.4
Minority interest	(5.7)	(10.0)	(8.4)	(10.4)	(10.6)
Net Income	697.0	567.0	852.1	1,047.1	944.8

Source: IPC II Annual Report

Table 18.b. Balance sheet

	2005	2006	2007	2008	2009
Total assets	4,467.1	4,701.8	5,441.8	6,413.7	7,041.5
Fixed assets	3,015.2	2,999.2	3,219.5	3,504.3	4,155.2
Total liabilities	1,109.9	1,004.4	1,187.7	1,490.4	1,709.6
Stockholder's equity	3,329.0	3,664.9	4,219.2	4,884.7	5,290.6

Source: IPC II Annual Report

Table 18.c. Operating Ratio

	2005	2006	2007	2008	2009
Operating Profit to revenue	37.0	29.1	28.9	24.3	33.0
Operating Profit to Stockholder equity	19.8	15.1	15.6	12.2	15.6
Operating Profit to total asset	14.8	11.7	11.1	9.3	11.7
Return on equity	28.7	19.9	24.9	25.7	22.7
Return on asset	16.9	12.7	12.9	10.9	13.2

Source: IPC II Annual Report

Table 18.d. Financial Ratio

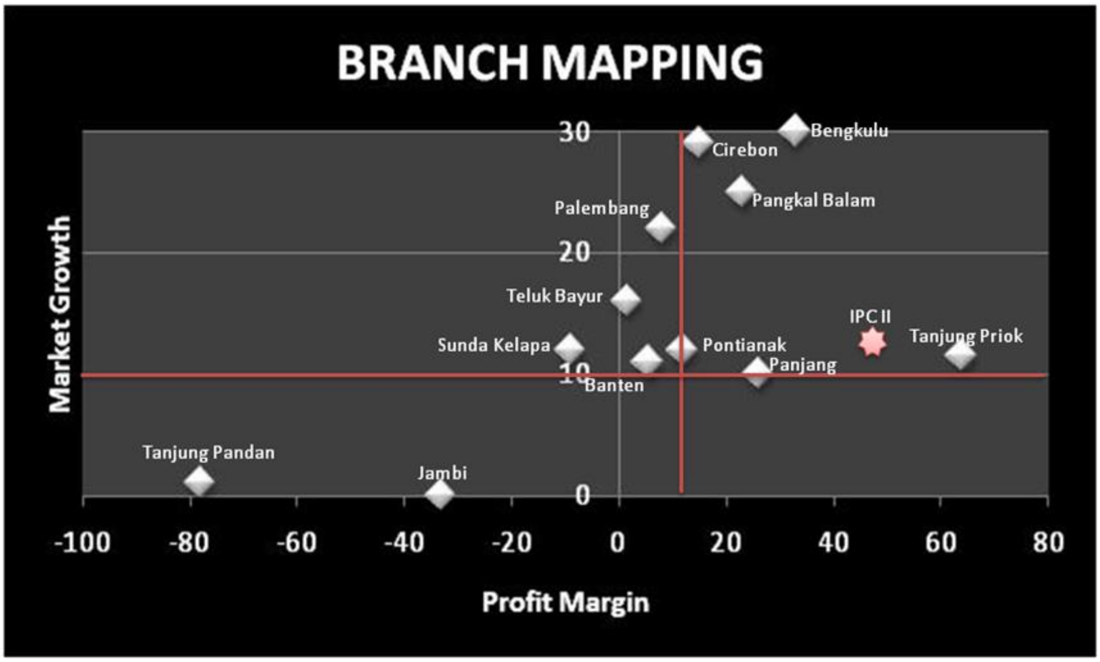
	2005	2006	2007	2008	2009
Current ratio	166.4	267.6	285.1	230.2	211.9
Debt to equity ratio	33.3	27.4	28.2	30.5	32.3
Total liabilities to total asset	24.8	21.4	21.8	23.2	24.3
Total asset to total debt	402.5	468.1	458.1	430.3	411.87

Source: IPC II Annual Report

5.2. Business Mapping

IPC II's business mapping is basically prepared using a modified BCG Matrix. Modifications done by choosing the profit margin as one of variable because, so far, port business is run by a monopoly, so the data of relative port market share is not available. Profit margin represents the internal factors, whereas market growth represents the external factors.

Business mapping is structured to analyze the position of all port branches in the IPC II's region and the position of all services products held by IPC II. Branch mapping is shown in figure 11, while product mapping can be seen in figure 12. (the raw data is available on appendix)



Source: IPC II's long term planning, Author

Figure 11: Branch Mapping

The figure above shows that the branch/business units scattered into the four quadrants. By using the limit of 10% profit margin and market growth of 7%, it can be seen the three major groups of branches/units. The groups are:

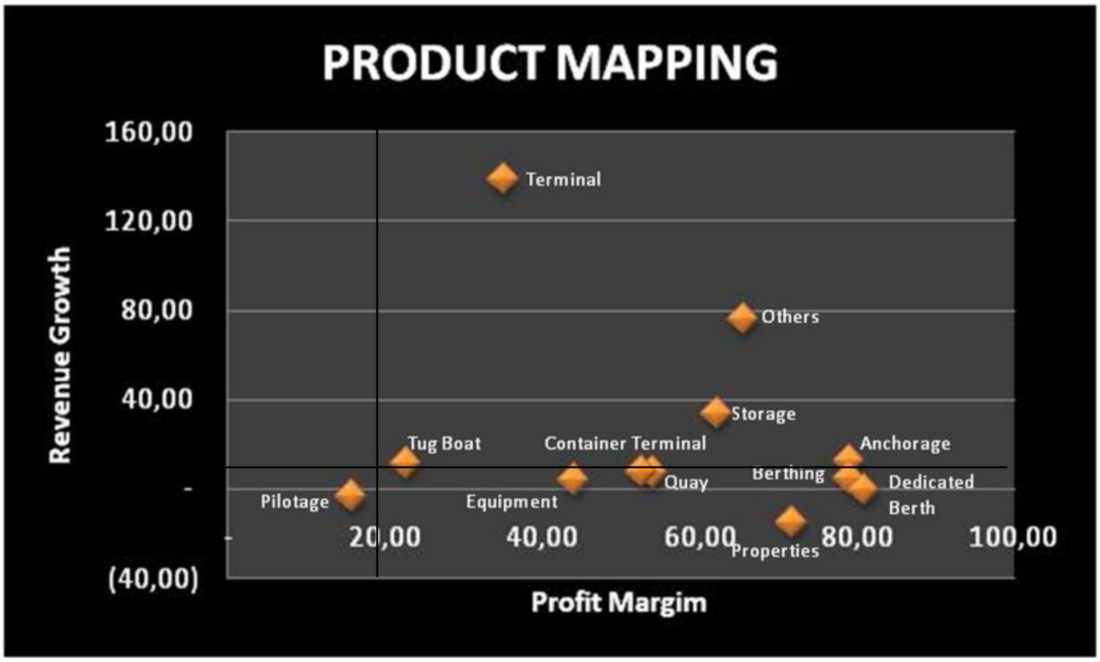
Group I: branch/business unit located in the high business attractiveness position and high business prospects. This position illustrates that the branch/business unit in the long term have the opportunity to grow with their high profitability.

Branches/business units that are in this position are Port of Tanjung Priok, Panjang, Pontianak, Cirebon, Bengkulu and Pangkal Balam.

Group II: branch/business unit located at the low business attractiveness, but the traffic growth is relatively high. Branches/business units that are in this position should improve their internal efficiency in order to response the high growth of cargo flows. Branches/business units in this position are ports of Palembang, Teluk Bayur, Banten and Sunda Kelapa.

Group III: branch/business unit located at the low business attractiveness position and also low business prospects. This position illustrates that the branch/business unit has internal weaknesses and external threats, therefore so far the branch/business unit runs the unattractive business. Branches/business units that fall into this group are Ports of Jambi and Tanjung Pandan.

The product mapping covers all types of service activities organized by IPC II. Two variables used to analyze are profit margin that represents the business attractiveness and revenue growth that indicates the business prospect.



Source: IPC II's management report, Author

Figure 12: Product Mapping

In general, at present all business segments operated by IPC II provide a profit except in some business segments. According to the mapping above, it can be seen that there are three major groups of business segment namely:

Group I: business segments located in the high business attractiveness position and high business prospects. This position illustrates that the business segments in the long term have the opportunity to grow with their high profitability. Business segments in this position are conventional terminals, tug boats, container terminals, quay services, storage and others.

Group II: business segments located at the high business attractiveness, but the revenue growth is relatively low. Business segments in this position may enjoy the condition which has a balance between corporate efficiency and adequacy of facilities at the internal side and market growth at the external side. Business segments in this position are dedicated for berth service, berthing, property, and equipment leases.

Group III: business segments located at the low business attractiveness position and also low business prospects. This position illustrates that the branch/business unit has internal weaknesses and external threats, therefore so far the branch/business unit runs the unattractive business. Business unit that falls into this group is pilotage. However, pilotage is a mandatory service and should be conducted at any circumstances.

5.3. Analysis of market attractiveness

Analysis of market attractiveness needs to be done to see how big the business potential is available. The attractiveness measured in terms of total cargo flows to be loaded and unloaded through the ports. Total cargo flows to be loaded and unloaded through the ports depend on economic and trade activities, and therefore the correlation between the cargo flow and one of the macroeconomic indicators, namely GDP will be exercised.

Analysis will be performed by using a simple linear regression model with one independent variable. The linear model is written as:

Y = a + bX

Y = dependent variable, cargo flow;
X = independent variable, GDP;
a = intercept
b = slope of the line

The data of cargo flows and GDP for the last five years from 2005 to 2009 can be seen in table 19 below.

Table 19: Cargo flow and GDP

Year	Cargo Flow (tons)	GDP
2005	100,677,495	1,750,815,200
2006	100,865,300	1,847,126,700
2007	108,290,763	1,964,327,300
2008	116,167,700	2,082,215,900
2009	107,180,016	2,176,975,500

Source: - Cargo flow = IPC II's annual report
- GDP = Trading Economics

Simple regression analysis result the intercept = 53,732,047.4 and slope = 0.0269, so the linear model can be written as follows:

Y = 53,732,047.4 + 0.0269X

As quoted in the Trading Economics (2010), the IMF has predicted Indonesia's GDP for the next five years as shown in table 19. Table 20 also includes cargo flow projections for the next 5 years, based on the above linear model.

Table 20: Cargo flow's projection

Year	GDP	Cargo Flow (tons)
2010	2,307,671,810	115,887,613
2011	2,450,747,460	119,741,258
2012	2,610,046,050	124,031,857
2013	2,784,919,470	128,741,945
2014	2,979,863,470	133,992,637
2015	3,188,453,920	139,610,879

Source: Trading Economics, Author

Cargo flows are projected to increase at an average of 3.80% per year to reach 3,324,354 tons in 2015. This projection is quite conservative given that in 2007 and 2008 the growth of cargo flows reached above 7% per year. However, cargo flows which are more than 100 million per year are very attractive for grabs.

Simple regression analysis will also be conducted to forecast the container flow for the next five years. Because the container flows fell sharply in 2009 due to global crisis, the analysis of simple regression will use the data obtained from 2004 until 2008. Then the container flow projections from 2010 to 2015 will be adjusted to the decrease of container flow in 2009.

The data of container flows and GDP for five years from 2004 to 2008 can be seen in table 21 below.

Table 21: Container flow and GDP

Year	Container Flow (TEUs)	GDP
2004	3.597.299	1,656,516,800
2005	3.733.380	1,750,815,200
2006	3.849.759	1,847,126,700
2007	4.141.899	1,964,327,300
2008	4.141.899	2,082,215,900

Source: - Cargo flow = IPC II's annual report
- GDP = Trading Economics

Simple regression analysis result in the intercept = 243,241.7 and slope = 0.00199, so the linear model can be written as follows:

Y = 243,241.7 + 0.00199X

The relation between container's flow and GDP is very strong. It is shown by the linear model which has a coefficient determination (R^2) = 97.55%. This means that two variables are highly correlated.

Based on the linear model, the flow of container flows in 2009 should reach 4,585,469 TEUs, but the realization was only 3,223,477 TEUS, so there is difference 1,361,992 TEUs. This difference will be used to adjust the container flow projections from 2010 to 2015. The projection of container flow will be shown in table 22 below.

Table 22: Container flow's projection

Year	GDP	Container Flow (TEUs)	Adjustment	Adjusted Container Flow (TEUs)
2010	2,307,671,810	4,846,159	1,361,992	3,484,167
2011	2,450,747,460	5,131,542	1,361,992	3,769,549
2012	2,610,046,050	5,449,282	1,361,992	4,087,290
2013	2,784,919,470	5,798,088	1,361,992	4,436,196
2014	2,979,863,470	6,186,929	1,361,992	4,824,937
2015	3,188,453,920	6,602,989	1,361,992	5,240,994

Source: Trading Economics, Author

After falling in 2009, the flow of containers is projected to increase by around 8% per year to reach 5,240,994 TEUs in 2015.

Another method of container traffic forecast used by Wignall (2010) in the study of Tanjung Priok short term development review. There are two simple methods to forecast container traffic, namely:

- Estimating the growth trend from the previous performance of the port.
- Assessing growth in world container traffic and estimating the share represented by Indonesia.

Wignall (2010) has developed a simple projection of the potential volume of throughput using the 2009 throughput as a starting point and using 6.0% as the low rate of growth 8% as the base rate of growth and 10% as the high rate of growth

5.4. IPC II's strategic response

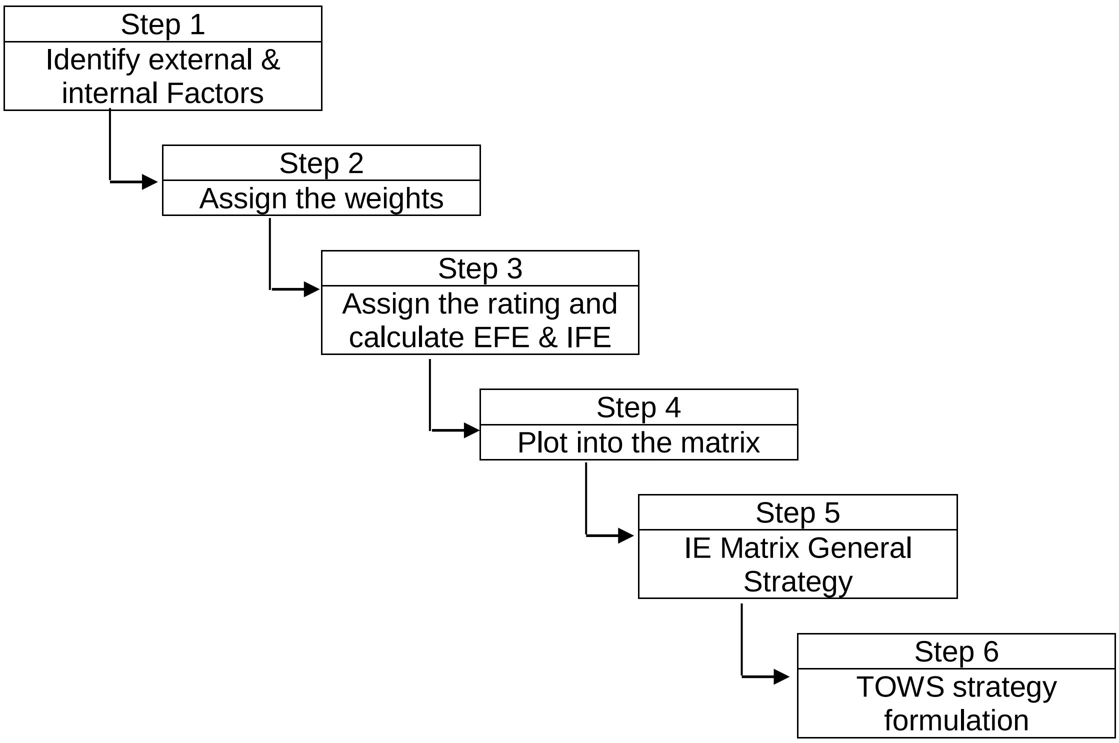
Hill and Westbrook (1997) explained that one of the approaches of SWOT process is:

> "*An individual client company's senior manager undertakes the analysis alone, or a consultant does it himself after discussion with senior managers*"

The preparation of IPC II's strategic response, including SWOT analysis, is conducted as a result of discussions with Senior Manager of strategic planning, IPC II. He is responsible for the preparation of the company's long term plan.

Having discussed about the IPC II profile and business mapping and analysis of market attractiveness, this will be followed by a discussion on the strategic response of IPC II to the implementation of Shipping Law (2008), while framework of strategy formulation is shown in the following figure.

The strategic response will be prepared based on the IPC II's position as shown in the figure 11. IPC II, as a corporate, is located in high business attractiveness with a relatively high growth in revenue.



Source: Author

Figure 13: Framework of strategy formulation

Step 1: This first step includes identification of all the external factors and internal factors. External factors are divided into two groups: opportunities and threats, while internal factors are divided into two groups, namely the strength and weaknesses.

Identification of external factors such as the list of opportunities and threats can be seen in table 23.

Table 23: External factors

Opportunities	Threats
Potential hinterland	New entrance
High growth of investment	Changes in special ports become a public ports
High GDP growth	Reduction of business scale
Potential transshipment cargo	Regional Authority Law
Stevedoring activities in conventional terminal	Poor coordination
Technology of handling equipment	Contradictory regulation
IT development	Poor infrastructure outside the port
Potential of logistic networking	Complicated bureaucracy
Government support	The readiness of warehouse outside the port
High interest of PSP	Security

Source: Author

Identification of internal factors such as the list of strengths and weaknesses can be seen in table 24.

Table 24: Internal factors

Strengths	Weaknesses
Strong internal finance	Limited nautical channel in some ports
Qualified human resources	Limited operational staff
Experience in port operator	Limited facility and equipment
Dominant market share in container terminal	High dividend pay out
Availability of land for port development	Inflexible delegated authority
Good corporate governance	Low Handling productivity
Incumbent in port business	Lack of experience in competition
Mature business in some branches	Operational service is not optimal
Strategic geographical area	Lack of marketing
Competitive tariff	Port security

Source: Author

Step 2: Assign the weight to all factors. Give the weight to each factor in the range from 0 to 10, which sum of the weight should be 100. Zero indicates that the factor is not important, while 100 indicates that the factor is very important.

The weight of external factors as shown in table 25 below:

Table 25: Assign the weight of external factors

No	Factor	Weight
	Opportunities	
1	Potential hinterland	8
2	High growth of investment	4
3	High GDP growth	7
4	Potential transshipment cargo	9
5	Stevedoring activities in conventional terminal	8
6	Technology of handling equipment	5
7	IT development	5
8	Potential of logistic networking	9
9	Government support	4
10	High interest of PSP	5
	Threats	
1	New entrance	4
2	Changes in special ports to become public ports	5
3	Reduction in business scale	5
4	Regional Authority Law	4
5	Poor coordination	3
6	Contradictory regulation	2
7	Poor infrastructure outside the port	3
8	Complicated bureaucracy	4
9	The readiness of warehouse outside the port	3
10	Security	3
	Total	100

Source: Author

The weight of external factors as shown in table 26 below:

Table 26: Assign the weight of internal factors

No	Factor	Weight
	Strength	
1	Strong internal finance	8
2	Qualified human resources	3
3	Experience on port operator	5
4	Dominant market share in container terminal	7
5	Availability of land for port development	4
6	Good corporate governance	4
7	Incumbent in port business	5
8	Mature business in some branches	6
9	Strategic geographical area	7
10	Competitive tariff	6
	Weakness	
1	Limited nautical channel in some ports	2
2	Limited operational staff	2
3	Limited facility and equipment	5
4	High dividend pay out	5
5	Inflexible delegated authority	6
6	Low Handling productivity	5
7	Lack of experience in competition	7
8	Operational service is not optimal	5
9	Lack of marketing	6
10	Port security	2
	Total	100

Source: Author

Step 3: Assign a rating to all factors. Rating indicates the level of effectiveness of company's strategy to anticipate each factor. Rating consists of the number 1 to 4. 1 = poor response, 2 = below average response, 3 = upper average response, 4 = superior response. After a rating assigned to each factor, we can calculate the weighted score by multiplying the weight of each factor with its rating, and then summing of all weighted score of each factor to become total weighted score.

The weight of external factors as shown in table 27 below:

Table 27: EFE Matrix

No	Factor	Weight	Rating	Weighted Score
	Opportunities			
1	Potential hinterland	8	4	32
2	High growth of investment	4	2	8
3	High GDP growth	7	3	21
4	Potential transshipment cargo	9	3	27
5	Stevedoring activities in conventional terminal	8	4	32
6	Technology of handling equipment	5	2	10
7	IT development	5	2	10
8	Potential of logistic networking	9	2	18
9	Government support	4	3	12
10	High interest of PSP	5	3	15
	Threats			
1	New entrance	4	4	16
2	Changing special ports become public ports	5	3	15
3	Reduction of business scale	5	3	15
4	Regional Authority Law	4	2	8
5	Poor coordination	3	2	6
6	Contradictory regulation	2	2	2
7	Poor infrastructure outside the port	3	2	6
8	Complicated bureaucracy	4	3	12
9	The readiness of warehouse outside the port	3	2	6
10	Security	3	2	6
	Total	100		273

Source: Author

The weight of external factors as shown in table 28 below:

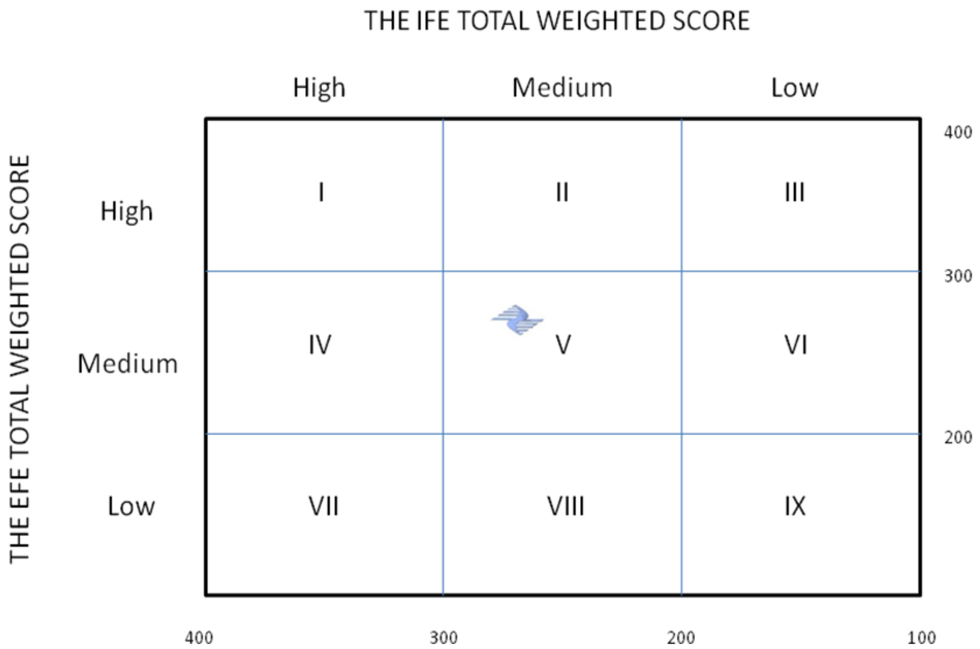
Table 28: IFE Matrix

No	Factor	Weight	Rating	Weighted Score
	Strength			
1	Strong internal finance	8	4	32
2	Qualified human resources	3	2	6
3	Experience on port operator	5	3	15
4	Dominant market share in container terminal	7	4	28
5	Availability of land for port development	4	3	12
6	Good corporate governance	4	3	12
7	Incumbent in port business	5	3	15
8	Mature business in some branches	6	3	18
9	Strategic geographical area	7	3	21
10	Competitive tariff	6	2	12
	Weakness			
1	Limited nautical channel in some ports	2	3	6
2	Limited operational staff	2	3	6
3	Limited facility and equipment	5	2	10
4	High dividend pay out	5	3	15
5	Unflexible delegated authority	6	2	12
6	Low Handling productivity	5	2	10
7	Lack of experience in competition	7	2	14
8	Operational service is not optimal	5	2	10
9	Lack of marketing	6	2	12
10	Port security	2	2	4
	Total	100		266

Source: Author

Step 4: Plot into the matrix. We have found for the EFE total weighted score = 273, and for IFE total weighted score = 266. The next step is to configure the Internal External (IE) matrix which comes from the matching of the total weighted score for EFE and the total weighted score for IFE, as shown in figure xxx.

Step 5: IPC II is located in quadrant V of IE matrix, this position illustrates that the IPC II is suitable for developing a general strategy of hold and maintain. IPC II has many branches that have different business environments. Development strategies will be implemented in some branches that have a high profitability and a great business opportunity. Optimization strategies are applied to the branches that have low profitability, but at a high market growth. The defensive strategy will be applied to the branches that are not-for-profit and face the external threat.



Source: Author

Figure 14: Internal External (IE) Matrix

Step 6: define the strategy based on TOWS matrix. Based on the general strategy described in step 5, the strategy will be prepared using TOWS (threats, opportunity, Weakness, strength) matrix as shown in figure 14.

Considering the branch mapping and mapping products, TOWS strategy will be applied to branches and business segments as follows:

- S-O strategies will be implemented especially in ports of Tanjung Priok and Panjang, while development in ports of Pontianak, Cirebon, Bengkulu, and Pangkal Balam will be conducted at certain business segments;
- W-O strategies will be implemented in ports of Palembang, Teluk Bayur, and Banten;
- S-T strategies are alternative strategies if the implementation of the Shipping Law (2008) gives a great opportunity in private enterprise;
- W-T strategies will be implemented in ports of Jambi and Tanjung Pandan.
- S-O strategies will be implemented especially in some business segments: conventional terminal in ports of Pontianak, Cirebon, Bengkulu, and Pangkal Balam; container terminal in ports of Tanjung Priok, Panjang, and Pontianak; tug boat service in ports of Tanjung Priok, Panjang, Palembang and Banten; warehousing and open storage in ports of Tanjung Priok, Panjang, Pontianak, Cirebon, Bengkulu, and Pangkal Balam;
- W-O strategies will be implemented in some business segments at some branches: conventional terminals in port of Palembang, Panjang, Teluk Bayur; container terminals in port of Palembang and Teluk Bayur;
- S-T strategies are alternative strategies if the implementation of the Shipping Law (2008) gives a great opportunity in private enterprise. It will focus to take over the business segments that are being cooperated, such as container terminal, conventional terminal, and tug boat service;

- W-T strategies will be implemented only in pilotage service at some ports. Because the pilotage service is mandatory, it will be evaluated to minimize losses.

	STRENGTH	WEAKNESS
OPPORTUNITY	S-O STRATEGIES	W-O STRATEGIES
	Development in the branches that have high profitability and big market size	Proposing dredging cost taken over by government
	Development in business segments that have high profitability	Optimization of HRD
	Investment in handling equipment	Installing additional handling equipment
	Forwarding integration (establish the logistic companies)	Investment in minimal requirement
	Looking for business partners	Improvement of the service procedure
	Looking for external funding	Increasing productivity
	HRD development	Looking for business partners
	Increasing the service level	Tightening the monitoring
	Increasing the marketing efforts	Increasing customer satisfaction
	Cost effectiveness	Improving the PFSO
	STRENGTH	WEAKNESS
THREATS	S-T STRATEGIES	W-T STRATEGIES
	Cost effectiveness	Proposing some ports taken over by government/divestiture
	Investment in handling equipment	HRD optimization or outsourcing
	Building a new port facility	Offering the cooperation to private companies
	Customer oriented	Concentric diversification
	Optimization of land usage	Increasing the coordination
	Focus on core business	Equipment availability on minimal requirement
	Improvement of coordination with local government	Maintaining service level on minimal requirement
	Simplification of bureaucracy procedure	Tightening the monitoring
	HRD development	Cost effectiveness
	Implementation of flexible tariff	Optimization of PFSO

Source: Author

Figure 15: TOWS Matrix

To anticipate the legislative scenario, IPC II needs to develop some alternative strategies as shown in table 15. Positions that will be faced by the IPC are:

- Alt 1.1. : IPC II remains as it is and the government does not open vast opportunities for private companies;
- Alt 1.2. : IPC II remains as it is and the government opens vast opportunities for private companies;
- Alt 2.1. : IPC II will be given a concession and the government does not open vast opportunities to private companies;
- Alt 2.2. : IPC II will be given the concession and the government opens vast opportunities to private companies;
- Alt 3.1. : IPC II will act as a terminal operator and the government does not open vast opportunities to private companies;
- Alt 3.2.: IPC II will act as a terminal operator and the government opens vast opportunities to private companies;

Legislative scenarios can be seen from how broad the government opens up opportunities for private companies. This will affect how strong the competition is going to happen in the port industry. Considering the position of the competition that is going to happen, the alternative strategies are prepared using the grand strategy matrix. Let us retrieve figure 7 to be displayed again.

RAPID MARKET GROWTH

WEAK COMPETITIVE POSITION	**QUADRANT II**	**QUADRANT I**	STRONG COMPETITIVE POSITION
	- Market development - Market penetration - Product development - Horizontal integration - Divestiture - Liquidation	- Market development - Market penetration - Product development - Forward integration - Backward integration - Horizontal integration - Concentric diversification	
	QUADRANT III	**QUADRANT IV**	
	- Retrenchment - Concentric diversification - Horizontal diversification - Conglomerate diversification - Divestiture - Liquidation	- Concentric diversification - Horizontal diversification - Conglomerate diversification - Joint ventures	

SLOW MARKET GROWTH

Source: David (1995)

Figure 16: The Grand Strategy Matrix

The matching between any alternative strategies in all branches with the quadrants of general strategy matrix will be presented. As already known, each quadrant in the matrix contains a number of strategies that are suitable for the market growth and competitive position. The matching can be seen on table 29 below.

Table 29: IPC II's Alternative Strategies

BRANCH	Suitability with Grand Strategy Matrix					
	Alt 1.1.	Alt 1.2.	Alt 2.1.	Alt 2.2.	Alt 3.1.	Alt 3.2.
Tanjung Priok	Q I	Q I	Q I	Q I	Q I	Q I
Panjang	Q I	Q I	Q I	Q I	Q I	Q II
Palembang	Q I	Q I	Q I	Q I	Q I	Q II
Pontianak	Q I	Q I	Q I	Q I	Q I	Q II
Teluk Bayur	Q II	Q II	Q II	Q II	Q II	Q II
Cirebon	Q I	Q I	Q I	Q II	Q II	Q II
Banten	Q II	Q II	Q II	Q II	Q II	Q II
Bengkulu	Q I	Q I	Q I	Q II	Q II	Q II
Jambi	Q III	Q III	Q III	Q III	Q III	Q III
Sunda Kelapa	Q II	Q II	Q II	Q II	Q III	Q III
Pangkal Balam	Q I	Q I	Q I	Q II	Q II	Q II
Tanjung Pandan	Q III	Q III	Q III	Q III	Q III	Q III

Source: Author

The alternative strategies have been prepared by considering the attractiveness of the existing and potential markets. Container terminal operator is a business that has high appeal, while the operation of conventional terminal and development of logistics services are a business opportunity that is available.

The main port of Tanjung Priok and the ports of Panjang, Palembang, and Pontianak have a strong competitive position because they operate container terminals. They also are in a relatively high market growth. Therefore, all alternative strategies lead to an aggressive strategy such as: market penetration, market development, product development and integration.

Port of Cirebon and Bengkulu can be developed if the IPC remains as current (option 1). These ports have been handling dry bulk cargo that has a not so high businesses attractiveness. If the IPC is in the second or third option, the aggressive strategy is not suitable for development of these ports.

The ports of Teluk Bayur, Banten and Sunda Kelapa have no strong competitive position. Therefore, limited development will be conducted if the IPC II is in the first option. If the IPC II is in the second or third option, then the diversification of business and divestiture become the alternative strategies.

The ports of Jambi and Tanjung Pandan are not economically feasible to be operated. Therefore, these ports can not be developed in any option. The alternative strategies are divestiture or propose to the government to take over the port operation.

CHAPTER 6: CONCLUSION AND RECOMENDATION

6.1. Conclusion

The Shipping Law (2008) is often referred to as port reform in Indonesia and the gateway to the participation of private companies, replacing the previous legislation that has legitimized the monopoly of port management. A key factor in implementation of the Shipping Law (2008) in the port sector is the establishment of Port Authority. The primary role of Port Authority as a representative of the Government is to give concessions to the Indonesian legal entities to operate the ports. The Indonesian legal entities could be either state-owned or private companies. The establishment of Port Authority and the granting of concessions to the Indonesian legal entities including the private companies are common practices in the port reform; this is the so-called liberalization of port management.

The Shipping Law (2008) has created the foundation of port liberalization. However, the substance of port reform in Indonesia actually has been performed since a long time ago. The port reform was conducted through two ways, namely:

- Corporatization: Corporatization was conducted by changing the State Enterprise (PN) into the entity managed with a business concept which commonly practiced by many private companies.
- Liberalization: Liberalization has been carried out by the IPC that at that time had a dual role as regulator and operator. The port liberalization process began when IPC was given a role as regulator. The Shipping Law (1992) has provided opportunities for the private sector participation through cooperation with IPC.

Obstacles that may arise in running the Port Authority is that all employees and officials of Port Authority must be civil servants and professionals are not allowed to join to Port Authority. Corporatization that has been pioneered since four decades ago became futile, and tends to become de-corporatization.

The promulgation process of Shipping Law (2008) in the Parliament did not go smoothly, a lot of protests led by the port workers union. In response to these protests, Minister of Transportation has reported to the President through a letter dated 22 April 2008 containing a commitment that the IPC will not lose their revenue except for revenue from anchorage service, but this will be offset by cost of dredging that will be due the government's expenses.

The political statement is potentially creating a dilemma in the implementation of the Shipping Law (2008). Political statement was contradictory to the spirit of liberalization. If the government decides IPC still operates all the terminals at the ports which have already been operated by the IPC, then the opportunity of private companies to participate in port management only available for the construction of new ports. Conversely, if the Government decided that all the assets of the IPC to be taken over and tendered to all Indonesian legal entities, then the Government will ignore the commitments that have been stated.

The opportunity of private companies to participate in port operation depends on what will be decided by the government in preparing the derivative regulations and its implementing regulations. There are at least three constitutional entrances for private companies: operate the terminal which was originally operated by IPC, built and operate new terminals, and operate special terminals and convert it to become public terminals.

The dual role that has been performed by the IPC is not balanced. IPC has carried out the dual role with more focus on regulatory aspect rather than port operator aspect. IPC become cannier as a regulator, but incompetent as the operator. IPC has been having too much cooperation with private companies in the areas of their core competencies, and giving concessions to private companies such as that to be conducted by Port Authority.

Under the Shipping Law (2008), the role of the IPC as a regulator would be taken over by the Port Authority. IPC has the role only as port operator. While private companies still have a role and equal opportunity to participate in port operations. Private sector participation is conducted through a concessions giving by the Port Authority.

The IPC's role will be directly affected by the implementation of the Shipping Law (2008). IPC II is currently preparing an alternative of strategic responses to the various possibilities that might arise from the implementation of the Shipping Law (2008). IPC prepares itself as the port operator and seek the right of the port that remains generating profit available to be operated by IPC. The main strategy will be implemented is to "hold and maintain", and focus on the development of several ports that have a high business attraction and a high market opportunities.

6.2. Recommendation

The enactment of Shipping Law (2008) is the proper step in the ports reform in Indonesia. This needs to be followed up with the establishment of a credible Port Authority. However if the government is not careful in implementing this Law, it will potentially create a de-corporatization. The requirement to fill all Port Authority's employees and officials by the civil servants is a set back from the port reform process. On the other hand, IPC II has carried out the dual role with more focus on regulatory aspect rather than port operator aspect. IPC has become more competent as a regulator, rather than as an operator.

Therefore, in order to ensure that the process of port's corporatization and port's liberalization will able to go hand in hand, it should be considered to give a role for IPC as a Port Authority and release all port operations to the Indonesian legal entities which engaged in the port's business.

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APPENDIX

BUSINESS SEGMENTS

NO	BUSINESS SEGMENTS	2007	2008	2009	GROWTH
1	ANCHORAGE				
	- Revenue	65.118.619	75.843.182	82.643.876	12,66%
	- Reduction	344.415	2.081.436	639.398	
	- Costs	30.505.116	4.472.961	4.893.604	
	- Net Income	34.269.088	69.288.785	77.110.874	
	- Profit Margin	52,63%	91,36%	93,31%	79,10%
2	BERTHING				
	- Revenue	114.487.133	134.271.618	126.313.003	5,04%
	- Reduction	1.555.565	4.222.125	4.350	
	- Costs	38.181.858	15.032.076	17.271.992	
	- Net Income	74.749.710	115.017.417	109.036.661	
	- Profit Margin	65,29%	85,66%	86,32%	79,09%
3	PILOTAGE				
	- Revenue	61.583.243	67.277.015	57.634.495	-3,26%
	- Reduction	6.692.068	2.677.645	421.770	
	- Costs	53.223.090	45.157.008	47.912.320	
	- Net Income	1.668.085	19.442.362	9.300.405	
	- Profit Margin	2,71%	28,90%	16,14%	15,91%
4	TUG BOAT				
	- Revenue	198.392.922	214.428.406	246.525.395	11,47%
	- Reduction	37.722.724	4.629.925	4.004.118	
	- Costs	149.964.733	159.282.028	144.877.360	
	- Net Income	10.705.465	50.516.453	97.643.917	
	- Profit Margin	5,40%	23,56%	39,61%	22,85%
5	QUAY				
	- Revenue	51.990.490	62.951.727	59.794.886	7,24%
	- Reduction	-	-	131.345	
	- Costs	33.860.394	22.615.846	21.683.332	
	- Net Income	18.130.096	40.335.881	37.980.209	
	- Profit Margin	34,87%	64,07%	63,52%	54,15%
6	STORAGE				
	- Revenue	52.477.604	69.289.161	93.931.080	33,79%
	- Reduction	77.599	-	-	
	- Costs	29.510.534	20.830.030	25.023.641	
	- Net Income	22.889.471	48.459.131	68.907.439	
	- Profit Margin	43,62%	69,94%	73,36%	62,30%
7	EQUIPMENT LEASSES				
	- Revenue	28.920.150	30.027.997	31.285.981	4,01%
	- Reduction	-	-	-	
	- Costs	18.522.692	15.656.453	16.018.840	
	- Net Income	10.397.458	14.371.544	15.267.141	
	- Profit Margin	35,95%	47,86%	48,80%	44,20%

	TERMINAL				
	- Revenue	73.097.983	428.648.250	415.605.481	138,44%
	- Reduction	16.181.259	31.031.569	-	
	- Costs	46.927.528	218.098.341	207.752.919	
	- Net Income	9.989.196	179.518.340	207.852.562	
	- Profit Margin	13,67%	41,88%	50,01%	35,19%
9	CONTAINER TERMINAL				
	- Revenue	216.182.103	248.305.622	250.251.091	7,59%
	- Reduction	14.683.834		872.307	
	- Costs	133.425.454	93.321.779	88.820.800	
	- Net Income	68.072.816	154.983.843	160.557.984	
	- Profit Margin	31,49%	62,42%	64,16%	52,69%
10	PROPERTIES				
	- Revenue	244.267.810	176.857.671	175.722.007	-15,18%
	- Reduction	363.020	-	-	
	- Costs	95.728.742	39.991.906	39.581.402	
	- Net Income	148.176.048	136.865.765	136.140.605	
	- Profit Margin	60,66%	77,39%	77,47%	71,84%
11	OTHERS				
	- Revenue	180.473.464	592.137.826	559.538.530	76,08%
	- Reduction	2.587.291			
	- Costs	45.396.931	217.142.346	221.542.303	
	- Net Income	132.489.242	374.995.480	337.996.227	
	- Profit Margin	73,41%	63,33%	60,41%	65,72%

BRANCHES

BRANCH	GROWTH (%)	PM (%)
Tanjung Priok	35	20
Panjang	23	7
Palembang	21	8
Teluk Bayur	10	9
Pontianak	14	3
Cirebon	19	17
Banten	5	18
Jambi	-5	11
Bengkulu	3	5
Sunda Kelapa	1	9
Pangkal Balam	16	18
Tanjung Pandan	-15	2