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The Strategies of the Company to Step in The Fuel Business in Indonesia

RICHARD YAURI TAHAWAKR Corporindo, richard.yauri@gmail.com

Abstract. The Law No. 22 of 2001 provides opportunities for private companies to step in the fuel business. PT. AKR Corporindo Tbk sees the fuel business in Indonesia as an opportunity based on the available resources. The purpose of this research is to analyze the company’s strategies to take the opportunity of stepping in the fuel business in Indonesia, using the approaches of entrepreneur school, creative destruction, and innovation analysis. This research is descriptive and uses qualitative approach. The data were collected through observation, literary study, and in-depth interviews. The result of this research shows that AKR Corporindo Tbk has taken benefit of stepping in the fuel business in Indonesia. This research reveals the fuel business in Indonesia as well as decision making in the business strategies.

Key words: strategy, entrepreneur, creative destruction, innovation

INTRODUCTION

A business organization has to continuously improve its adjustment ability, thus improving their competitiveness. Thomas Friedman in The World is Flat (2006) stated that a borderless world has spread across the continent, turning every single area borderless and flat, which means that the world has been in the position of equal playing field because of globalization and proliferation of technology, information, and communication (Tobing and Fitriati 2009). The logical consequences of the getting-flattened world are the getting-similar price of goods in the whole world and the economic interplay among countries. A country can no longer depend on its abundant resources and inexpensive labor costs since soon or later the real price of production factors tends to undergo convergence (equalization of factor prices), and so does the variable cost (Friedman 2007). Therefore, it is necessary to have an appropriate company strategy to win the competition.

In relation to the strategy, several experts describe this concept in a sense of mutual strengthening, in accordance to the perspective used to determine the specific characteristics of the strategy (see Mintzberg 1994, Johnson and Scholes 1997, Certo & Peter 1990, Thompson 1998, Pearce & Robinson 1997, Glueck & Jauch 1991, Stoner 1992). Based on various meanings and definitions, strategy can generally be defined as a plan concerning a series of maneuvers, consisting all tangible and intangible elements, to ensure the achievement of goals. The decision of strategy is made under the conditions of limited rationality, uncertainty, and ambiguity (Ansoff 1965, March 1978, March and Olsen 1976 in Kuwada 1998).

Based on Figure 1, Resource-Based View (RBV) is the idea developed in strategic management theory. Companies believe they will achieve preeminence provided they have excellent resources. With excellent resources, they can implement any kind of business strategy that eventually promotes them into competitive preeminence. RBV is an alternate perspective towards Market Based View (MBV), which becomes the mainstream of strategic management thinking nowadays. The advantage of RBV is on its easier and simpler application by which the condition of the problems is identified.

Apart from its advantages, RBV is susceptible to a difficulty in blending the company’s internal resources, since in RBV innovation must be done continuously; otherwise, innovation will be obsolete and then die off. Therefore, RBV needs creative destruction to avoid being obsolete and being in the comfort zone.

Based on the explanations in Figure 1, the winning strategy can be defined through its ten schools. The ten schools are shown in the following Table 1.

Based on Table 1, entrepreneurship is a part of resource-based schools in the strategy formations and analogies of winning strategy. Similar to the strategy, several experts describe the concept of entrepreneurship with different definitions in accordance with the perspective used to determine the characteristics of entrepreneurship (Drucker 1985, Kuratko and Hodgetts 2006, and Schumpeter 2003). According to
Shane and Venkataraman (2000), entrepreneurship is a study concerning the source of opportunities, process of invention, evaluation and exploitation of opportunities, as well as a group of individuals who discover, evaluate, and making use of it. Entrepreneurship also forms a new organization (Zhang and Yang 2006). Ucbasaran, et al (2001) stated that basically, entrepreneurship is individual activities having opportunities to create values, consisting of a risk, and highly associated with innovation. In such definition, entrepreneurship focuses on the aspect of innovation.

Innovation itself means a creation of new things that have never existed or been created before. Entrepreneurship leads to overall invention, evaluation, and exploitation of entrepreneur opportunities (Shane and Venkataraman 2000, Zhang and Yang 2006), consisting of the creation of new speculations and entrepreneur attitudes built by organizations. Cole (1942), one of the first researchers in entrepreneurship studies after Schumpeter, stated that entrepreneurship is an activity involving creation, maintenance, or extension of a company’s profits.

Based on the definitions of an entrepreneur, we can see that the major roles an entrepreneur plays for his milieu are as a creative destruction maker with his courage to perceive and to change what has been considered as established, routine, and satisfying, an innovator, a novelty initiator, a risk taker and calculator; (5) an opportunity seeker and exploiter; and (6) an organization maker.

Schumpeter’s theory of modern growth stated that innovations towards new business opportunities

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**Table 1. Ten Schools Based on Strategy Formations and Their Analogies**

<table>
<thead>
<tr>
<th>Schools</th>
<th>Animal Analogy</th>
<th>Strategy Formation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resources Based</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>Idea-Searching Process</td>
<td>Jackal</td>
</tr>
<tr>
<td>Cognition</td>
<td>Mental Process</td>
<td>Owl</td>
</tr>
<tr>
<td>Learning</td>
<td>Emerging Process</td>
<td>Monkey</td>
</tr>
<tr>
<td>Authority</td>
<td>Negotiation Process</td>
<td>Lion</td>
</tr>
<tr>
<td>Culture</td>
<td>Collective Process</td>
<td>Peacock</td>
</tr>
<tr>
<td>Environment</td>
<td>Reactive Process</td>
<td>Ostrich</td>
</tr>
<tr>
<td>Configuration</td>
<td>Transformation Process</td>
<td>Chameleon</td>
</tr>
<tr>
<td><strong>Market Based</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Position</td>
<td>Analytical Process</td>
<td>Buffalo</td>
</tr>
<tr>
<td>Planning</td>
<td>Formal Process</td>
<td>Squirrel</td>
</tr>
<tr>
<td>Design</td>
<td>Conception Process</td>
<td>Spider</td>
</tr>
</tbody>
</table>
eventually create new employments in factories or companies exploiting the opportunities. In the process, innovations also make several units old and the companies’ technology obsolete, and destroy their labor (Aghion dan Howitt 2009). Therefore, creative destruction with innovations is a proper term (Maliranta et al. 2010). Creative destruction is a dynamic model of capitalism where innovations of a certain company play an important role. The process of creative destruction reflects an entrepreneur’s activities that stimulate basic alteration in society (Kirchoff 1989). Development of organization resources is far more important than competition orientation since the better the learning process and organization development are, the higher and more sustainable the company competitiveness is (Prasentyantoko and Pramono 2008).

Schumpeter (2003) perceived that creative destruction is achieved through the inventions of new technology, products, markets, process, and organization forms that create an alternative for the available products and practices. In relation to the creative destruction maker, Schumpeter (2003) sees creation as rather a relatively independent circumstance, than an adaptive response towards other weaknesses or pressures. Therefore, entrepreneur innovations emerge first and its exposure towards the economic system causes destructions of the old system.

In the previous researches, creative destruction played an important role as the source of macro-level productivity growth and unit development on manufacture industries in Finland (Maliranta et al. 2010). Entering, exiting, and reallocating resources on long-term manufacturers explain the one-third of the entire productivity growth in manufacture since 1975 and almost all productivity accelerations since 1985 (Maliranta et al. 2010). The primary explanatory factor is to increase the competition and to deepen Finland integration into global economy that is assisted on the “supply side” through education and policies on innovations.

Schumpeter’s formulations (2003) on the concept of creative destruction can be associated with the analytical scheme of economic evolution that he formulated in development and cycle. According to this scheme, the evolution of economic system tends to occur through series of the following events (Figure 2).

First, the initial equilibrium or the old system (routine). The analytical starting point is the economic system based on the solid method. This system is assumed to have an equilibrium that allows the economic agents to operate in an accustomed way year by year (routine). Second, innovations (old system is destroyed, implement innovations). The initial equilibrium is destroyed when several innovators begin their business. This creates an economic upswing, however the innovation flow gradually vanishes because of the lack of innovation skills and the difficulty to innovate in the conditions outside the initial equilibrium. Third, equilibrium renewal (creatively destroy by creating renewable and durable innovations). Eventually, a strong will to innovate is insufficient to maintain the increase. A decrease sharpens the competitive process in creative destructions where some old companies are chosen from the economic system whereas the others survive from the obsolete old method. Eventually, the renewable and durable method emerges. Fourth, economic evolution as the process of creative destruction (obsolete
The economic evolution lies in the accustomed equilibrium and innovative destruction that challenges the method. This process creates socio-political reactions that may radically alter its future functions. For instance, the very latest technology can instantly make the earlier one used in a company obsolete and cause the values of million-dollar infrastructural investments of several decades rapidly decrease.

This cycle is what Schumpeter (2003) refers as creative destruction, a term previously used by Mikhail Bakunin (1842), Sombart (1913), and Friedrich Nietzsche (1968) (“it is from the destruction that the new spirit of creativity emerges”). Today’s biggest challenge that business leaders have to face is whether they have sufficient time and energy to manage the creative destruction process, particularly the speeds and scales that are required to compete with the market. There are essential differences between the company and the market in stimulating, managing, and controlling the creative destruction process due to different assumptions. The summary of Schumpeter’s scheme on economic evolution shows that there are two interconnected concepts. Creative destruction is a selecting of methods from the companies by pressure of innovations. The creative destruction process is a combination of this selection and innovative activities that stimulate the process. This broad concept is therefore a synonym of the economic evolution that highlights its conflict-affected characteristic. Corresponding to this, the author uses Schumpeter’s “Creative Destruction” to analyze how PT. AKR Corporindo Tbk perceives the fuel business opportunity in Indonesia.

Indonesia is one of the countries possessing abundant resource potentials, including oil and gas, whose management has up to now been monopolized by the government through PT. Pertamina from the upstream to the downstream. However, the condition is gradually changing with the implementation of Law no. 22 of 2001 on Oil and Gas. In addition, the government has established an independent agency, that is, the Regulatory Body of Oil-Based Fuel Supply and Distribution and Activities of Transporting Natural Gas through Pipelines (the Government Regulation No. 67 of 2002 and the Presidential Decree No. 86 of 2002). Henceforth, this agency is referred to as the Oil and Gas Downstream Regulatory Body (BPH Migas). To carry out the provisions in the Law No. 22 of 2011, particularly in terms of the downstream oil and gas business, the government has stipulated Government Regulation No.36 of 2004.

By the time this research was conducted (2009), the consumption of domestic fuel for the last 10 years has shown an increase of approximately 4.8% per year. With the increase of population and the improvement of domestic economic growth, the consumption in the future is predicted to increase gradually. The capability of today oil fields continuously decreases whereas the capacity of domestic refineries remains constant. The need of importing oil in the form of either fuel or crude oil will gradually increase in the future. The capacity of domestic refineries nowadays is 1.057 million barrels per day and operating between 750–800 thousand barrels per day. Several refineries are old and vulnerable to
damages, thus have the potential of disrupting the stability of domestic fuel supply. The capacity of domestic refineries in the last 5 years does not increase considering the notably high cost of refinery investment whereas the economic condition is currently in the stage of recovery. In addition, national refinery investments are also affected by the Asian regional refinery business condition, which has relatively run down since 1997 because of the refinery overcapacity caused by the establishment of new refineries, simultaneous with the regional economic crisis in 1997.

However, nowadays, the demand volume in the Asian regions is approaching the highest capacity of the available refineries as the result of the rapid increase of fuel demands from China and the decline of refineries activities in the Middle East due to maintenance program. The development trend in refinery side has not been certainly known to be permanent or temporary. It is also necessary to remember that lately China has made an effort of cooling down its economic sector, thus it is predicted that it will affect the development trend of regional refinery business. The development of regional manufacture business will determine the possibilities of refinery development in Indonesia in the future and therefore, it is necessary to be constantly observed.

On the other side, since 2002, the prices of premium gasoline, diesel oil, and kerosene have been determined based on the average Mid Oil Platt’s Singapore (MOPS) in the period of the previous month added with 5% (five percent) and Value Added Tax (VAT). However, since the public purchasing power is still low, this provision cannot be fully implemented. This is because for a long time Indonesian people have been accustomed to the subsidized fuel price. Although the government has made several efforts to discharge the subsidy, the subsidy discharge has not been entirely carried out successfully because of the low public purchasing power. The price of domestic fuel, except that of Aviation Turbine fuel (Avtur), Aviation gas (Avgas), and gasoline with RON 92, is still subsidized as of now. The biggest subsidy is given to petroleum for household consumptions whereas for industrial purposes, the price is still approaching the market price. With the conditions of limited government finance and expensive international oil price nowadays, the subsidy charges are getting heavier. Therefore, the government constantly makes an effort to reduce it.

The dualism of the petroleum price for household and industrial purposes with the large disparity of the price between the petroleum for household purposes and other fuels triggers many misuses of fuel allocation, which leads to the scarcity of fuel. As of 2001, Pertamina remained the only business entity that was given mandates and governmental tasks to supply and distribute fuel in the entire regions of the Unitary State of the Republic of Indonesia. By implementing the Law No. 22 of 2001, the mandates given to Pertamina have been invalidated. The efforts of supplying and distributing fuel can be carried out by any Business entity that has obtained a Business License from the government. The price of fuel will then depend on the mechanism of fair and healthy business competition.

In the period of transition (approximately four years after the implementation of the Law No.22 of 2001), the supply and distribution of fuel in Indonesia are carried out by Pertamina based on the assignation from the government. Except for Avtur, Avgas, and premium gasoline with RON 92, the policy of fuel price during the period of transition is stipulated by the government. This assignment towards Pertamina will end in November 2005 at the latest. Although the Law No. 22 of 2001 opens the opportunities of emerging new business entities in the sector of fuel supply and distribution, the opportunities will only be taken if the business entity can gain profits from its business activities. However, it is difficult to be implemented if the fuel price has not been controlled by mechanism of fair and healthy business competition.

With the aforementioned problems, efficient and effective controlling and monitoring of fuel business activities are necessary to ensure the supply and distribution of fuel in the entire regions of Indonesia. The downstream oil and gas business is focused and based on the business of Manufacturing, Transporting, Storing, and/or Trading before the issuance of the Law No. 22 of 2001, with PT. Pertamina Persero serving as the regulator and actor of fuel in Indonesia. The government policy has caused the problem from upstream to downstream, particularly in the downstream sector, that is, the scarcity of fuel in several regions, especially those outside Java Island. This is because the distribution of fuel is only concentrated in Java island. Learning from the problems, the government eventually decided to open the opportunities for private companies to step in the fuel business to fulfill the fuel supply and distribution in the regions that are less covered by PT. Pertamina Persero, the management of which is handed over to BPH Migas. Observing the available
resources, PT. AKR Corporindo TbK as one of the largest chemical distributors in Indonesia sees this as an opportunity to step in the fuel business in Indonesia (resources based). Based on the backgrounds of the problems, the purposes of this research are: (1) to find out the manner by which PT. AKR Corporindo TbK perceives the new business opportunity, that is, stepping in the fuel business in Indonesia; (2) to explain the method used by PT. AKR Corporindo TbK in taking the business opportunity; and (3) to analyze the strategies used by PT. AKR Corporindo to take the business opportunity.

**METHODOLOGY**

This research uses a qualitative approach (Creswell 2009). It is descriptive since it gives clear descriptions of the manner by which PT. AKR Corporindo TbK perceives the new business opportunity, that is, to step in the fuel business in Indonesia. The method and strategy of the research used to analyze PT. AKR Corporindo TbK’s perception are based on the observations and the results of in-depth interviews. On the other hand, to analyze the strategies used by PT. AKR Corporindo, literary studies were conducted on the data related to fuel industries, including PT. AKR Corporindo TbK, the Investment Coordinating Board (CICB), the Ministry of Trade, the Ministry of Industry, the Central Bureau of Statistics (CBS), PT. Pertamina Persero, the Ministry of Energy and Mineral Resources, and concerned parties. The data were used to perform innovation analysis and renewed equilibrium analysis consisting of: (1) systems and methods on how the renewed company makes innovations, where the company perceives the opportunity to step in the fuel business in Indonesia; (2) exploitation of the opportunity and the choice of strategies to achieve it; and (3) the result of the company’s creative destruction.

**RESULTS AND DISCUSSION**

During 2002 – 2004, before PT. AKR Corporindo TbK stepped in the fuel business in Indonesia, its incomes and net profits continuously increased from 47 billions, to 53 billions and to 77 billions. Innovations were not made by the company since with such condition, the company had produced positive results. However, the positive results are insufficient since the increase trend set the company management into its comfort zone, where they are easily satisfied with the current conditions. Along with the increase of its business, the company also requires adequate resources in order to balance the economic growth.

In 2004, the company bought 58.24% of Sorini stocks and 100% of Khalista (Liuzhou) Chemical Industries Ltd stocks, in China. It was the beginning of the innovations carried out by the company. It gave positive impacts towards the whole company’s financial performance, although not as many as that of the business fuel. The strategies used by the company after implementing this expansion includes three points, as explained in the followings:

**First**, fuel. AKR has taken the opportunity of the liberalization of fuel market since 2005. AKR also has developed logistics facility networks for the distribution of fuel to the industrial, mining, electricity, and bunkering consumers. In addition, AKR has become the main actor in the domestic fuel distribution market and has settled on developing vast downstream markets in Indonesia. The fuel distribution markets in Indonesia are undergoing an increasing trend almost along 2008. In the last quarter of 2008, several industries announced the production declines as the result of the sharp decline of demands, particularly in textile industries, plantations, automotive, and construction industries. This caused the decline of fuel demands in the sectors. However, in certain industries, such as mining, the volume continuously increases thus the fuel demands remain stabil.

**Second**, the market. Along 2008, the conditions of oil markets were constantly discussed. Several circumstances have brought impacts on the increase of crude oil demands and products of distilled oil. Recorded in 2008, the fuel price reached its highest, triggered by the increase of demands in developing countries as well as speculations. However, by the end of the second half of 2008, the world’s commodity and fuel prices decreased as the result of the decline of global economy. The price of crude oil decreased by two-third, from the original USD 145 per barrel. The high selling price caused the increase of income by 50.3%. This gave positive impacts on the business of AKR. The volume increased by 28.6%, resulting in the total selling growth by 93.3% in fuel selling. The government policy to carry out the deregulation of fuel distribution market in Indonesia was successfully applied with the focus on the mitigation of fuel subsidies. Indonesia is a fuel importer country; such condition will remain considering the lack of refinery facilities available in Indonesia.

**Third**, the focus on strategic locations and facilities. The deregulation in the downstream sector involving private parties has provided supplier al-
ternatives and a number of new suppliers. With the vast geographical area of Indonesia, logistic facilities remain an important factor in ensuring the fuel supplies. By recognizing the growing potentials in other islands, AKR targets the markets outside Java. AKR has finished the expansion of the fuel-storing terminal and improved the distribution networks and facilities of fuel in Kalimantan and Sumatra islands. AKR sees the growing potentials in the future. In 2008, AKR completed the establishment of Stagen facility, in Pulau Laut, the largest fuel terminal in one location with the capacity of storing 50,000 KL, and operated the expansions in Lampung, Medan, and Surabaya, thus the total capacity of storing increased from 181,000 KL to 250,000 KL. AKR also launched the first self-propelled oil barge (SPOB), that is, AKRA 10 that allows AKR to ensure the fuel distribution to the consumers in the mining sectors in Kalimantan. Meanwhile, the second SPOB, which is AKRA 20, is currently in the process of completion, and expected to operate in 2009, which will increase the capability of AKR for the cargo delivery to rough terrains in Kalimantan.

External environment is the primary factor that influences the company to step in the fuel business in Indonesia. The external factors consist of eight analyses. First, the government regulations, namely the Law No. 22 of 2001, the Government Regulation No. 36 of 2004, and the Government Regulation No. 67 of 2002 on the Implementation of the downstream oil and gas business, Article 3. These regulations have the purposes to ensure the effectiveness of the implementation and control of the accountable efforts of manufacturing, transporting, storing, and trading fuel which is implemented through the mechanism of fair, healthy, and transparent business competition; to ensure the efficiency and effectiveness of the available fuel and natural gas, both as the energy sources and as the basic materials, for domestic purposes; to support, grow, and develop national capabilities in order to compete in regional, national, and international levels; and to create job vacancy, improving public welfare and prosperity, as well as protecting the environments.

For the executor of the downstream oil and gas business, these regulations govern that: downstream business shall be implemented by (according to Article 9 Section 1) State-owned Enterprises, Regional State-owned Enterprises, Cooperatives, Small Companies, and Private Companies; Business Entity shall mean the company with legal entity that runs constant and continual business type, and shall be established in conformity with the legal provisions in force, running and having its domicile within the territories of the Unitary States of the Republic of Indonesia (Article 1 Section 17); Business License shall mean a license given to a business entity to carry out manufacturing, transporting, storing, and/or trading efforts with the purpose to gain incomes and/or profits (Article 1 Section 20); and Downstream business shall be carried out by the legal entity after obtaining the business license from the government (Article 23 Section 1).

Second, provincial regulations. The Law No. 22 of 2001 mentioned that Regional State-owned Enterprises are allowed to carry out the fuel business; therefore, there will certainly be several Provincial Regulations in connection with the Law No. 32 of 2004 on Regional Autonomy with the purpose to increase Regional Own-source Revenue.

Third, economic indicators. Economic growth highly affects public purchasing power. Public purchasing power is a significant factor in supporting the industrial growth that will eventually affect national fuel consumptions. In the long-term and midterm perspectives, Indonesia constantly requires higher economic growth in the following decades considering several things. Firstly, the alteration in technology has reduced the elasticity of jobs creating per 1% of the economic growth. It means, if the company wishes to reduce the level of unemployment to 4-5% per company, in the following decades the non-oil and natural gas sector in Indonesia must always be able to increase above 7%. This phenom-

Table 2. Summary of the Financial Reports of PT. AKR Corporindo Tbk before stepping in the Fuel business in Indonesia

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Income</td>
<td>2187</td>
<td>1844</td>
<td>1630</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>359</td>
<td>246</td>
<td>207</td>
</tr>
<tr>
<td>Operational Profits</td>
<td>178</td>
<td>88</td>
<td>85</td>
</tr>
<tr>
<td>Net Profits</td>
<td>77</td>
<td>53</td>
<td>47</td>
</tr>
<tr>
<td>Fluctuation of Net Profits</td>
<td>24</td>
<td>6</td>
<td>-1092</td>
</tr>
<tr>
<td>Fluctuation (in percentages)</td>
<td>75%</td>
<td>18300%</td>
<td>247%</td>
</tr>
</tbody>
</table>

Source: Financial reports of PT. AKR Corporindo Tbk of 2004
enon happens in the entire world and forces many countries to carry out the reorientation of their economic development strategies. Secondly, the poverty level in Indonesia is still considered high. Most of Indonesian people are still living few above the poverty line. Higher growth rates in several decades to come will require not only to prevent absolute poverty (by 6% nowadays) but also to reduce the number of Indonesian near poor people, which is almost a half of the total population in Indonesia. This group of poor people tends to be vulnerable towards individual, global or systemic fluctuations. Strengthening this group is a very important part in stimulating domestic economy and democracy transitional process, considering that this group is the most important of the middle-class people. The company also needs to restore the performance of the tradable sector left in the process of economic growth acceleration in the past five years. Rapid growth of the tradable sector is highly required to pay for investments and for the payments of interests and foreign debt installments in the future.

Fourth, political and security stability. The improvement of political and security stability indicated by Indonesia’s success in organizing general election in 2004 and legislative election in 2009 has given positive impacts towards the investment climate in Indonesia. This is indicated by the large number of foreign direct investments entering Indonesia, particularly on the business of oil and gas and mining.

Fifth, social factors. The consumption behavior as the result of economic growth and stability of cost prices affects the standard of life and the level of public income. Sixth, the amount of fuel markets. The large number of fuel markets in Indonesia can be seen from the number of Indonesian population (over than 200 million people) where certainly markets are highly potential for the large number of fuel market particularly mining, manufacture, and transportation sectors. Furthermore, regions outside Java Island that are are still less covered by PT. Pertamina in fuel distribution can be the primary markets with fewer competitors for PT. AKR Corporindo Indonesia Tbk.

Seventh, technology. Technologies as referred to here are those of machinery, of infrastructures, and of information that support the fuel downstream business from supply to distribution to end users.

Eighth, living environment demands. One of the issues of global warming, primarily discussed in the entire world, is to produce gas emissions that are safe for the environment and do not pollute the air. Such attempt has caused the prohibition fuel production that contains leads and intensified campaigns of biodiesel-fuel use. The campaigns oblige the availability of biodiesel-fuel in particular number in every diesel-fuel selling to the end users and promote the annual increase of biodiesel-fuel compositions.

A steady internal power of PT. AKR Corporindo Indonesia Tbk is highly required to achieve competitive preeminence in order to adapt with environmental changes in today’s era of hyper-competition and e-business. In such era of unique preeminence, a company can purchase sophisticated technological instruments while its competitor can also do the same thing at once. Therefore, a technological instrument is not a resource for achieving competitive preeminence. Human competence capable to operate such technological instruments, however, is an excellent resource, thus can make the most of the technology and gain many benefits for the company.

Therefore, the analysis of the company’s internal environment consists of six analyses. First, the competence of human resources. Human resource is the most important part of the overall business strategies of the company. Without the element of human resources, the company will not succeed in running the business in the past and in the present. PT. AKR planned to maintain the equal level of employees in 2009. The company planned to increase its productivity by conducting trainings and developing responsible performance of the entire organization. In term of competitive preeminence development, the employees are expected to develop new skills and apply them in the location where they are working. The company believes that to obtain an increase it should sustainably improve its working performance. Instead of being final efforts, the trainings are initial ones. No matter how rapid today’s development of human resources knowledge is, the knowledge will be altered in the following week or in the following year. Hence, the company provided open forums for every individual in the whole companies to share effective operational practices for the sake of efficiency development. One of the company’s programs aiming to increase the performance of human resources is Management Stock Option Plan (MSOP). The implemented MSOP has succeeded in recruiting reliable employees.

Second, the risks management. Fluctuations and challenges as the result of the global economic crisis encourage the business world to adopt and ap-
Table 3. Indonesian Economic Indicators of 2005-2009

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (in million people)</td>
<td>221</td>
<td>223</td>
<td>227</td>
<td>230</td>
<td>235</td>
</tr>
<tr>
<td>Gross Domestic Product (GDP)</td>
<td>5.5</td>
<td>5.6</td>
<td>6.3</td>
<td>6.0</td>
<td>4.4</td>
</tr>
<tr>
<td>GDP per capita (USD)</td>
<td>1.237</td>
<td>1.375</td>
<td>1.300</td>
<td>1600</td>
<td>1600</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>17.1</td>
<td>6.6</td>
<td>6.7</td>
<td>11.06</td>
<td>6.2</td>
</tr>
<tr>
<td>Interest rate per 3 months (%)</td>
<td>12.75</td>
<td>9.75</td>
<td>8.80</td>
<td>12.00</td>
<td>7.25</td>
</tr>
<tr>
<td>Exchange rate (IDR/USD)</td>
<td>9.830</td>
<td>9.100</td>
<td>8.000</td>
<td>11.325</td>
<td>10.300</td>
</tr>
<tr>
<td>Foreign exchange reserve (in billion USD)</td>
<td>34.7</td>
<td>34.0</td>
<td>54.9</td>
<td>63.0</td>
<td>54.5</td>
</tr>
<tr>
<td>Petroleum (USD/barrel)</td>
<td>51.8</td>
<td>52.0</td>
<td>70.0</td>
<td>100.0</td>
<td>70.0</td>
</tr>
</tbody>
</table>

Source: World Bank, Bank Indonesia, and CBS, 2009

The mechanism of effective risks management. This mechanism is aimed to anticipate and reduce the risks spread in the entire components of the organizations and networks. The company is aware of the importance of the entire stipulation of the risks management mechanism on all components of the organization and business activities.

This risks management is perceived not only as an obligation but also as a need to maintain the competitiveness of the company in the markets in order to ensure the achievement of sustainable profitability and development. The management makes an effort to apply the high level of awareness towards the risks that can affect the organization. Furthermore, the management also makes an effort to formulate and apply the procedures of internal control that has the purpose to reduce the possible emergence of the risks and to support the principles of equality, transparency, and accountability. The management of the company has succeeded in identifying the risks caused by both internal and external factors.

Third, the risks of the price. The declining condition of the world’s economy can affect international prices and directly put the company’s supplies in a risky situation. In order to reduce the effects of the risks, the company has carried out several steps to reduce the Net Open Position and carefully monitor the supply level for the needs of distribution and manufacture as well as to establish cooperation with the parent companies and the supplier.

Fourth, the risks of international currencies. In running the business, the company depends on the customers and foreign sources, thus putting the company in the risk toward the fluctuation of foreign currency exchange rate. This risk is managed by using the same currency when carrying out a transaction of specific products, for instance, using the US Dollar currency for the trade of certain chemical products. At the same time, the company also applies the hedging system by creating forward cover for the purchase of fuel in US Dollar (USD) and the sales draft in Rupiah (IDR).

Fifth, the risk of supplies and volumes. The condition of strict market competitions and price fluctuations that allow the condition where the market leaders govern the price has put the company in the risk that affects the supplies or volumes. To reduce the effects and the emergence of the risk, the company constantly establishes cooperation with the principal clients and the suppliers in order to ensure precise distributions and optimal supplying stock.

Sixth, the risk of Health and Safety at Work (K3). In running the business, which involves the use of deposit tank terminals, transportations, and operations vulnerable towards the risk of Health and Safety at Work, the company has carried out steps and procedures to reduce the risk in accordance with the best practices according to the international standards. The risks of Health and Safety at Work are carefully and strictly monitored by the employees of the company by conforming the Health and Safety at Work procedures and standards with the System Management Document and by obliging routine reports of the system application in accordance with the alterations in the industry and environment. The company has also formulated contingency plans as well as their implementations to improve the skills of responding suitable with the risk.

Observing the external and internal factors, the company creates strategic ideas to carry out innovations. Those strategic ideas were translated by the company’s leader into the visions and missions to achieve desired goals. One of the innovations is stepping in the potential fuel business in Indonesia which is overlooked by other companies, such as the markets of diesel fuels for the industrial estates in Central and Eastern Indonesia, where many mining companies largely need them. This potential has not been optimally used by other national and multinational companies operating in Indonesia.

Innovations of the company are not sufficient to
stimulate growth. This is caused by the fact that the obsolete innovations will gradually be replaced by innovations that interest more consumers or, perceived from the operational side, are more efficient and effective. Therefore, the company carried out creative destructions, thus the innovations implemented by the company will remain sustainable by finding new business opportunities and constantly maintaining the preliminary innovations.

In 2005, as a realization of the opportunities from the deregulation of the downstream oil sector and supported with the available logistics facilities, AKR started to run the distribution of fuel products to the industrial customers. During the same year, the company continued the strategies in gaining benefits as many as possible of the strategic logistics assets by stepping in the business of the distribution of fuel products. The company had anticipated the deregulation of the downstream oil sectors and made strategic investments in land sectors. The company, apart from improving the deposit tank terminals, established good cooperation with primary oil companies that started to operate in Indonesia. This business opens large opportunities in the future since the company is the first one that imports and distributes fuel in Indonesia.

In the first quarter of 2005, Indonesian economy grew with the expectations of a higher economic growth helped by the political stability, the increase of interests of the foreign investors, and the increase of expenses in infrastructural projects. However, the constant increase of the oil price in the entire world that approached USD 70 per barrel caused the increase of subsidy charged by the government. The substantial increase in the oil price in October 2005 caused domestic inflation and an increase on the loan interest rate. This has caused declines in business conditions and depreciation of Rupiah (IDR) towards many international currencies prior to the end of the year.

The following is the report of financial performance of the company for the annual period ending on December 31, 2005. The net profits of the company increased by 54.5% to 119.3 billion, the incomes grew by 29% to IDR 2,828 with the better performances in the three segments of the business. The year 2005 was indicated by the positive condition of the economy in the first half with the significant growth and profitability. The increase of the oil price has a direct impact towards the commodities.

The companies with strategic investments of the logistics facilities and broad experiences in handling bulk chemicals used the open opportunity provided by the implementation of the downstream oil deregulation. Investments in tank terminals, land sectors in main ports, transportation units, and broad customer networks make the company the first private company that imports oil products. Along 2005, the company started to distribute automotive diesel fuel (HSD) from its terminal in Surabaya. The first cargo imported from Singapore was accepted on September 30, 2005 and the company gladly reported that the distribution had been spread to banten, Jakarta, and Semarang in the first quarter of 2006, with the plan to cover other big cities in Java, Sumatra, and Bali islands in a short period. Despite the increase of energy and operational costs in Indonesia, the selling volume increased by 9% and the realization of the selling price increased as well, the company were also focusing on the products that have added values, and were expanding its export markets.

This is carried out through the cooperation with large oil companies for the supply, deposit, and transportation of oil products with long-term contracts. This allows the company to entirely participate in the downstream oil sector and expand its activities. In relation to the growths in the business of oil and bulk chemicals, the company improved the tank facilities in the ports or harbors, ship piers; two units of Harbour Mobile Crane are used to handle containers in the ports in Surabaya. The company predicted the availability of better uses, higher realizations, and logistic facilities in the following years.

In the effort to redesign the organizational structures of AKR in order to achieve the operational preeminence, focus on the market, and achieve sustainable growths, the company has carried out a transformational process for the past two years. During the two years, the process was completed with the reorganization of business units and corporate functions. The company has settled the Standard Operational Procedures in the operational units and implemented them in the process of improving information technology and reporting standards.

The following years will give challenges and large opportunities for the company. The Board of Directors believed that with the support of the investors, the customers and the employees, the company would be able to take and make use of these opportunities to the maximum point.

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Based on the following graphic data, the innovations carried out by PT. AKR Corporindo Tbk corporately show a positive result towards the performance of the company, with the incomes, gross profits, and operational profits from 2004 to 2007. This graphic data shows an annual increasing trend from the previous years.

In 2008, when the global financial crisis staggered the world and the world’s large companies underwent significant declines and unemployments, PT. AKR Corporindo Tbk remained showing a positive financial performance.

The main contributor of the selling is the fuel business unit (53%), whereas chemical unit comprised 21%, manufacture 22%, logistics 3%, and others 1%. Creative Destruction of the company by creating innovations to step in the fuel business is proven to have given a large contribution for the entire financial performance.

**CONCLUSION**

The result of the research, using the approaches of entrepreneur school, creative destruction, and innovation analysis, showed that PT. AKR Corporindo Tbk has effectively exploited the opportunities to...
step in the fuel business in Indonesia. The company business strategies are conducted through three methods. First, the initial equilibrium analysis (the old system/routine). Second, innovation analysis (internal and external environments, and observing opportunities to innovate). Third, the implementation of creative destruction by creating renewable and durable innovations (renewed equilibrium). These were carried out with several strategies, i.e. the alteration of the organizational structures of the company, the focus on the market to achieve sustainable growths, the transformational process by carrying out the reorganization of business units and corporate functions, the settlement of the Standard Operational Procedures in the operational units, the implementations of these alterations in the process of improving information technology and reporting standards, and the innovations to step in the fuel business.

The overall strategies are proven to significantly contribute to the entire financial performance, shown by the company’s highest selling on the fuel business unit. This research has a limitation on its research scope, which is only limited to PT. AKR Korporindo Tbk and the environment of top management as the strategic decision makers, but not for the strategic stipulation and application. This research is therefore casuistic; the model and the result of this research may be different for other researches conducted in other companies.

REFERENCE


