Using organization structure to buffer political ties in emerging markets: A case study

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Abstract

We use and extend resource-dependence theory by analyzing how loosely-coupled organizational structures facilitate the management of political ties by business groups in emerging economies. This topic is particularly salient because business groups are a prevalent organizational form in these countries where they face both a high dependence on governments to secure key resources and a unique set of risks associated with political ties. We identify and analyze four buffering mechanisms that enable loosely-coupled business groups to protect themselves against the adverse effects of such ties. We ground and contextualize these mechanisms by relying on a longitudinal case study of the Salim Group – a very large and well-connected Indonesian business group under the Suharto regime. This study is particularly relevant in the context of the renewed interest in the study of firms' organizational structure.

Keywords: Buffering; Political ties; Resource dependence, Non-market strategy, Indonesia, Organizational structure, Salim Group, Emerging markets, strategy, crony capitalism

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Introduction

In some countries and industries, political ties with governmental actors are imperative for survival and prosperity because the latter control access to major business opportunities and can provide crucial support through subsidies, favorable regulation, government contracts, protection against competitors, tax benefits and the like (Baron, 1995; Boddewyn & Brewer, 1994; Hillman & Hitt, 1999; Oliver & Holzinger, 2008; Salorio, Boddewyn & Dahan, 2005; Schuler, Rehbein & Cramer, 2002). This is particularly true in emerging economies defined as 'low-income, rapid growth countries using economic liberalization as their primary engine of growth' (Hoskisson, Eden, Lau & Wright, 2000, p. 249), where the institutions that assist economic transactions are less developed and where firms typically form ties with a variety of actors, including governments (Henisz & Zelner, 2003). However, the benefits of political behavior in these countries cannot be obtained without incurring significant risks – for example, when regime changes take place (Leuz & Oberholzer-Gee, 2006; Siegel, 2007) or political agents extract excessive rents from the benefiting firms (Fan, Won & Zhang, 2007; Shleifer & Vishny, 1994).

Reliance on key external actors such as governments has been extensively studied using resource-dependence theory which offers a comprehensive account of how organizations seek to actively manage their reliance on external actors (Davis & Cobb, 2009; Hillman, Withers & Collins, 2009; Pfeffer & Salancik, 1978). In this context, our aim is to investigate how firms in emerging markets protect themselves against the negative effects of political ties, and thereby extend resource-dependence theory in an area that has not been sufficiently developed – namely, how firms depending on political ties can use organizational design to obtain such protection.

In the first place, most resource-dependence research has been conducted in developed countries where government power is relatively transparent and well-defined, compared to emerging economies where, interestingly enough, the literature on political ties is shifting from a focus on their significant benefits to a consideration of their countervailing risks. For instance, Siegel (2007, p. 621) noted that: 'Just as positive ties can lead to favor exchange and other benefits for companies, negative ties can lead companies to be the victims of discrimination, resource exclusion, and even occasional expropriation and sabotage between rival sociopolitical networks.' Similarly, in the social-network literature, there has been interest in the phenomenon of negative ties and of ties as a social liability (Labianca & Brass, 2006) but resource-dependence theory has underplayed the mechanisms which firms use to protect themselves from the negative effects of ties with powerful partners (Katila, Rosenberger & Eisenhardt, 2008). Therefore, while recent work has addressed the importance of power imbalance in resource-dependence situations and of the defense mechanisms which firms use to protect their resources from misappropriation by partners (Casciaro & Piskorski, 2005), *we do not sufficiently understand how firms in emerging economies protect themselves from the risks associated with political ties.*

Besides, the use of organizational-structure design to manage dependence on external parties has not been extensively studied. Yet, Kotter (1979) concluded that reducing the demands of external actors and/or minimizing the cost of complying with the latter rested on: (1) selecting a domain (e.g., operating in industries and locations where dependence can be limited); (2) controlling the actors operating in the domain (e.g., reducing competition through favorable legislation); (3) establishing external linkages (e.g., co-opting key political actors), and (4) *properly designing the organization* (e.g., *creating specialized subunits to deal with each major* *source of external dependence*). This last structural-design response has so far received little attention in the literature on how firms manage their resource dependence on governments (Hillman, Keim & Schuler, 2004) – particularly in the context of emerging economies (Davis & Cobb, 2009) – even though organizational design and firm boundaries are central topics in organization studies (Greenwood & Miller, 2010; Santos & Eisenhardt, 2009).

Analyzing this organizational response is particularly relevant in the case of the diversified business groups which are so prevalent in emerging economies (Khanna & Yafeh, 2007) and differ significantly in structure from the types of firms that are much more common in the United States and the United Kingdom where most political-behavior studies have been situated. Following Granovetter (2005, p. 429), we define business groups as 'sets of legally separate firms bound together in persistent formal and/or informal ways' and we contrast them with 'stand-alone firms' organized into headquarters and subsidiaries with consolidated financial results. The key distinguishing factor between these two types of firms lies in the intermediate amount of binding among their constituting units – that is, ties in business groups are stronger than those among separate firms linked in short-term strategic alliances (e.g., joint ventures) but weaker than those between firms that are consolidated into a single legal or operational entity (e.g., multinationals with wholly-owned subsidiaries). *This significant difference gives us the opportunity to investigate whether the organizational structures of business groups in emerging economies allow them to benefit from their dependence on political ties while minimizing the latter's concomitant risks.*

For this purpose, we will first review the literature on organizational design as an instrument for dealing with external dependences and then identify and analyze four mechanisms by which business-group structure serves as a defense mechanism against the risks of political ties. After describing our methodology, we will analyze the Indonesian Salim Group – the largest and best-connected Indonesian business group which thrived during the Suharto presidency (1966-1998) on account of its political ties but then had to counteract subsequent government hostility after its patron was ousted. We use this unique revelatory case in order to ground and contextualize our buffering mechanisms. Finally, we will discuss our findings, consider their limitations, present conclusions and offer suggestions for further research.

Using organizational design to deal with external dependences

Following early research on organization structures that enable boundary-spanning with external parties (Aldrich & Herker, 1977; Thompson, 1967) or prevent these parties from harming the firm (Meyer & Rowan, 1977), we extend our understanding of how firms use organizational design to manage their political ties – particularly, through bridging and buffering strategies.

Substantially, we will consecutively argue that: (1) political ties are essential in the uncertain and dangerous political environment of emerging countries; (2) political ties create dependences on the political actors who confer benefits to the firm; (3) ties must be managed, and this can be achieved through buffering, and (4) to make buffering effective can be achieved through the use of a compartmentalized organization structure.

Bridging and Buffering strategies

Resource-dependence theory posits that firms depending significantly on external resources will attempt to minimize or neutralize this dependence in various manners (Pfeffer & Salancik, 1978). One available mechanism is to vary the degree of 'bridging' between their technical operations and external parties – where *bridging* refers to connecting an organization to other ones (Fennell & Alexander, 1987, p. 458) through such forms as co-optation, joint ventures, mergers, acquisitions, bargaining, contracts and government connections (Scott, 2003, p. 203-211). Thus, organizations relying on political actors try to 'couple' their ties with them to their organizational structures and processes (Basu, Dirsmith & Gupta, 1999; Greening & Gray, 1994).

However, Davis and Cobb (2009) pointed out that the actors on whom an organization depends may not share the same interests while Kraatz and Block (2008) argued that most organizations are faced with an institutional environment that imposes multiple demands on the organization. For instance, politicians are usually motivated by combinations of personal gain, national interests or those of particular constituencies so that their goals are not fully aligned with those of private firms. Therefore, organizations having to adapt to incompatible demands may choose to seal off their central set of tasks from environmental influences through intra-organizational *buffering* techniques aimed at reducing uncertainty in the performance of central tasks (Scott, 2003, p. 200; Thompson, 1967, p. 19).[1]

In this regard, Meyer and Rowan (1997) suggested that organizations operating in highly institutionalized environments are likely to 'de-couple' their operational structure from the one used to conform to institutional conventions. Hence, the more organizations are faced with simultaneous yet contradictory demands, the more useful are 'loosely coupled' organizational designs where units are only weakly connected to each other (Pfeffer & Salancik, 1978, p. 273). Such 'loose coupling' enables greater strategic flexibility (Lei, Hitt & Goldhar, 1996) as it allows separate organizational units to conduct fairly autonomous actions when they confront a pluralistic environment (Orton & Weick, 1990).

While political ties in emerging markets tend to be positively associated with financial performance (Faccio, 2006; Peng & Luo, 2000), the worth of these connections is contingent upon both firm-specific and environmental factors (Li, Poppo & Zhou, 2008; Park & Luo, 2001) and may even turn into a liability (Fisman, 2001). In this respect, buffering the organization against the unfavorable effects of political ties is particularly important in emerging markets because the power of their politicians is not significantly constrained by legal frameworks, and the balance of power between a firm and its political connections tends to favor the latter so that political partners may harm a firm by becoming a 'grabbing hand' rather than a 'helping' one (Fan, Wong & Zhang 2007; Shleifer & Vishny, 1998). *Therefore, in this analysis, we focus on extending our knowledge on how firms can manage the risks of political ties through buffering mechanisms involving organizational structuring.*

Business groups as compartmentalized organizations

Given the substantial benefits and risks of political ties in emerging economies, it is not surprising that business groups in emerging economies have adopted organization structures where individual legal units are loosely coordinated by a common owner (Yiu, Lu, Bruton & Hoskisson, 2007) because this design facilitates the selective bridging and buffering necessary to handle political ties in these countries. In this regard, while scholars interested in business groups have highlighted the synergistic advantages of sharing such resources as people, capital and technologies across organizational units (Guillén, 2000), resource-dependence theory suggests instead that *some of the benefits of these groups lie in the relative separation of their organizational components – what is called 'compartmentalization.'*

Pratt and Foreman (2000) argued that under some circumstances it is preferable for organizations to maintain multiple identities, and that such plurality in an organization can be implemented through compartmentalization, which ‘occurs when organizations choose to structurally separate their commercial units without trying to attain any synergy among them’ (Pratt & Foreman, 2000, p. 26). They argue that compartmentalization is a response to the demands of multiple external stakeholders on whom the firm depends and that it can be implemented through different means, including physical, spatial or symbolic compartmentalization – for instance by locating parts of the organization in different offices or by having distinct corporate cultures that address particular stakeholder groups. The importance of compartmentalization is also addressed by Dastmalchian (1984, p. 238) who studied British firms’ environmental dependence and concluded that ‘when a particular dependency is considered to be problematic, management may opt for more formalized and specialized structures and thus allow for more autonomy and more decentralized decision structures.’

Therefore, on the basis of the arguments developed so far, we posit that: (1) political ties are essential in the uncertain and dangerous political environment of emerging economies; (2) political ties create dependences on the political actors who confer benefits to the firm; (3) political ties that create dependences must be managed by mitigating their negative aspects through buffering, and (4) buffering can be achieved through the use of a compartmentalized organization structure. However, we still need to understand *how* firms use this type of structure to protect themselves from the adverse effects of political ties – something we will do by advancing and analyzing four buffering mechanisms.

Buffering mechanisms

Resource-dependence theory has benefited from recent reviews, clarifications and extensions which, together with Pfeffer and Salancik's original insights, allow us to link business groups' compartmentalized structure to the buffering it provides for the management of political ties.

Preventing political ties from being linked to other ones

Resource-dependence theory predicts that firms want to increase their discretion over the use of a particular resource even if they cannot fully control it (Pfeffer & Salancik, 1978, p. 57-60). In this respect, a compartmentalized structure gives the owner more possibilities to link the firm to political actors but locates the latter in different legal units. Given that, in an emerging economy, a business group may have numerous ties with different actors, access to a particular political tie may be more valuable if it were segregated from other ones. Two different reasons can explain why tie isolation can be more valuable than tie overlap. First, using the terminology of Granovetter (1973), a tie is more valuable if it forms a unique bridge — that is, if actors connected to a business group cannot access a particular political connection except through the group's owners. If all partners were to have access to the political tie directly, there would not be a unique value attached to this particular political tie. Second, such segregation also allows the maintenance of incompatible ties. For instance, business groups in emerging economies benefit from alliances with foreign multinationals but the latter often demand that their joint ventures be free of local political ties so as to avoid the legal and reputational risks associated with such connections. Another advantage is that incompatible political ties can be included within a business group – for instance, by enlisting representatives from different political parties. By locating them in separate legal units, tie diversification is achieved while mitigating the political risk resulting from a tie being linked to other ones.

Preventing political ties from misappropriating group resources

Selznick (1949) pointed out that formal co-optation, such as appointing a political tie as a shareholder, if coupled with actual power-sharing may pose risks to the organization through misappropriation of resources by the co-opted party. In this regard, Katila et al. (2008) argued that resource-dependence theory has focused more on the rationale for tie formation than on the dangers of partners misappropriating firm resources. In their study of firms forming links with powerful corporate partners (‘sharks’), they concluded that:

> Firms swim with sharks rather than safer partners when they need the unique resources that sharks possess and can protect themselves with tailored defense mechanisms that maintain their power within the relationship (Katila et al., 2008, p. 322).

In a related vein, Casciaro and Piskorski (2005) pointed out that resource-dependence theory focuses on aligning both *ex-ante* power imbalance and mutual dependence but tends to underplay *ex-post* problems such as the excessive appropriation of resources by the partners. In this regard, political ties’ becoming a ‘grabbing hand’ is a well-documented phenomenon (Fan et al., 2007, p. 353) that warrants a different type of defense mechanism (Katila et al., 2008, p. 295). Locating a tie in just a small part of the group limits their ability to extract excessive rents from it and buffers the firm against the risks of financial exploitation of the group’s resources.

Preventing political ties from spreading damage to the entire organization

According to Oliver (1993, p. 11), buffering allows organizations to conceal certain activities while Orton and Weick (1990, p. 210-211) observed that the behavioral discretion of separate units facilitates illegal external alliances. Such secret and/or lawless activity bears on the risks associated with political ties in emerging economies – particularly, when these ties amount to corruption (i.e., when an official uses his/her position for private gain) even though the boundary between legal and illegal political connections is sometimes difficult to demarcate because legal and cultural standards differ across emerging economies (Luo, 2006). Firms engaging in illegal or objectionable activities prefer to hide them – an action amounting to de-coupling (Meyer & Rowan, 1977; Westphal & Zajac, 2001) and which Redding (2008, p. 282) linked to the opaque nature of Chinese business groups:

> Because of the institutionalizing of 'secrecy' . . . the constructing of complex organizational webs is also well established and so too is the dividing of much action between those who know what is going on and those who can only guess. This institutionalized opacity has been an important component in the growth of many new complex business groups and in much of the opportunism in accessing state assets.

In this regard, the compartmentalized business-group structure provides an excellent vehicle for hiding objectionable transactions with political partners by making them 'opaque' – a practice facilitated by the fact that a group's parts are often invisible because they generally have low name recognition as belonging to a particular group (Granovetter, 2005). Besides, Siegel (2007, p. 660) observed that political network ties can become a significant liability for companies when the latter are exposed to charges of corruption and other forms of legal and reputational damage from maintaining objectionable political ties because, when such ties are discovered, the group can be penalized. In this regard, a compartmentalized structure can limit the damage to the legal unit involved and prevent the harm from spreading to other group-affiliated units or to the owner of the group.

Preventing political ties from turning into political liabilities

Katila et al. (2008, p. 322) drew attention to the 'timing' of defensive mechanisms. Because of resource-dependence's dynamics from the tie-formation to the post-tie-formation stage, a political tie's ability to deliver the resources needed by a firm may decrease over time if it loses its power. Fluctuating control over resources not only hurts the firm when the bridging provided by a political partner no longer provides its intended value but it may also lead to additional damage against which the company must buffer itself. In this regard, the literature on political ties has shown that, when allies fall from power, they tend to affect the firm negatively (Siegel, 2007). For instance, Fisman (2001) recorded that firms associated with the Suharto regime in Indonesia suffered a decline in market value when negative news about the dictator's health were published.

However, when a political partner loses his or her powerful position and the legal entity that handles dealings with him or her forfeits the latter's resources, a business group's compartmentalized structure allows this entity to be easily spun off without having to part with a substantial part of the business and without the loss of power spreading to other parts of the group. Compartmentalization can thus offer an effective buffering mechanism against political-power changes that create political liabilities.

Altogether, resource-dependence theory sheds light on the conditions under which loosely-coupled organizational designs are useful for handling external dependences – particularly, through buffering mechanisms. Our first two mechanisms deal with limiting the risks emanating endogenously from the political ties themselves – either because these ties could collude against the firm or because they could appropriate group resources – while the last two mechanisms involve limiting the dangers emanating from external stakeholders – either when charges against the group generate legal and reputational damage or because a major political tie has fallen from power and becomes a liability. In any case, the four buffering mechanisms and the rationales for employing them are not mutually exclusive although, since the risks which these buffering mechanisms address may in practice coincide, it is useful to separate them from a conceptual point of view. Business groups may employ some or all of them, depending on the context but stand-alone firms cannot avail themselves of these protective mechanisms to the same extent. We will now ground and contextualize our arguments through the case study of the Indonesian Salim Group after discussing our methodology.

Methodology

A longitudinal case study

Longitudinal case studies cover a sequence of events and fall into the category of 'process research' which is particularly suited for handling 'why' and 'how' questions in order to theorize about causal mechanisms (Langley, 1999; Yin, 2003). Besides, for researchers interested in 'how' questions, case studies allow them to tease out why certain processes occur under a particular set of circumstances. For this purpose, the use of 'extreme' (Eisenhardt, 1989) or 'revelatory' cases (Yin, 2003) is promoted because they display a phenomenon more transparently. Moreover, a single historical case study enables one to 'examine temporal change processes in intrafirm political behavior' (Skippari, 2005, p. 85).

In this regard, political strategies are often hidden 'below the line' so that understanding them requires extraordinary access to information that may only be available through personal interviews (Boddewyn, 2007). The case-study approach can also capture less visible processes from multiple points of view (Yin, 2003; Strauss & Corbin, 1990) and can thereby provide greater insight into causal mechanisms – including the organizational compartmentalization and buffering mechanisms in which we are interested.

As such, our empirical study contributes to theory development by grounding our identified buffering mechanisms.

Case selection and research context

We selected a prominent and well-connected family business group – the Salim Group – which had very close ties with the presidential Suharto family. In Indonesia, ties between politicians and businessmen have been common – especially during Suharto's rule (1967-1998). While, in the first decade of his rule, a number of local business groups competed for such favors, it was the Salim Group led by founder Liem Sioe Liong and, later, by his son Anthony Salim, which grew to be Suharto's 'crony of choice' and the largest group in Indonesia.

The ties to Suharto who ruled Indonesia in a highly centralized and personalized manner came in different forms. His family members were often shareholders or directors in Salim-Group companies, and the Group at times invested in companies belonging to the Suharto family. Next to formalized ties, there were also regular informal meetings between Suharto and

Liem who was considered to be Suharto's advisor. In a range of occasions, the Salim Group was called upon to implement new government policies (e.g., to start businesses in heavy industries when economic policy favored industrialization) and to donate a share of company profits for poverty alleviation. At other times, Suharto issued special directives to make exceptions to laws or rules that solely benefited the Salim Group. Liem and his family also played a role in managing various Suharto-linked foundations which, especially in the 1970s and 1980s, played an important role in the Indonesian economy because they controlled a variety of businesses. Therefore, the Salim business group offers a unique research context for investigating of the organizational structuring of political ties.

Another reason for selecting this firm was that we were able to gain access to top-management, which allowed insights as to how the Group was organized. The mechanisms of political connectedness were further exposed in the aftermath of the Asian Crisis of 1997 when Suharto's regime unraveled and he was ousted from office. Subsequently, the Salim Group was forced by the new government to hand over a substantial part of its assets and companies whose later sales revealed information that allowed researchers to analyze the mechanisms which the Group used to benefit from political ties under changing political conditions. While there have been earlier publications on this group (Sato, 1993; Dieleman & Sachs, 2008), extant research has not considered the organizational-design aspects of the Salim Group on which our arguments focus.

Sources

Our data are derived from a broad multi-year (2003-2009) study of the Salim Group that focused on its development within the Indonesian institutional context. As part of this project, a variety of data was collected through 77 semi-structured interviews, 85 annual reports, corporate information from the Dun & Bradstreet (DNB) database, and structured media searches from the Lexis Nexis database, the whole of which resulted in an elaborate set of data.

The *semi-structured interviews* were usually conducted in English but only three of the interviews were taped (two with the CEO Anthony Salim and one with his 'second man') because of the sensitivity of the data pertaining to the Group, which also required anonymity for all respondents except the CEO. We increased source variety by selecting as respondents insiders, outsiders and government actors – including five interviews with former Indonesian cabinet members, two with Anthony Salim, son of founder Liem Sioe Liong, and 17 with his top-executives – sometimes more than once in order to build up a relationship.

Annual reports were collected from 1994 (when most Salim companies started to be listed on stock exchanges) to 2006. Because many political transactions occurred with privately-held firms, we deliberately sought information on these companies by searching the *DNB database* (search terms: names of family members as directors or shareholders) which yielded 97 company profiles. The Salim Group published a 1996 corporate brochure which provided an overview of the group's activities while the new Indonesian government gave detailed information on the structure of 107 Salim companies transferred to the government in the aftermath of the Asian financial crisis.

A systematic business-article search was conducted using the *Lexis Nexis database* which yielded over 40,000 articles until 2006. To retrieve and review them, we used as keywords 'Salim Group,' the names of Salim family members and those of more than 300 companies we thought belong(ed) to the Group.

Data analysis

We gathered additional data over several years, as recommended for qualitative studies (Miles & Huberman, 1994). However, to increase validity, we emphasized the triangulation of different sources so that our findings and conclusions could be based on converging evidence from multiple sources (Yin, 2003) regarding the nexus between political ties and the Salim Group's organizational structure. We organized the data we gathered in the following manners:

- We developed a chronology of 266 business activities derived from newspaper articles and annual reports, and derived a subsample of the Salim Group's business activities involving political ties – with 40 business events including political figures, as presented in Table 1. Most activities were new businesses with the involvement of people close to President Suharto – particularly, his children – as directors and/or shareholders. In some cases, the Salim Group received unique permissions or advantages that favored its businesses – as when the government bailed out a loss-making Salim company but other events involved the Group rescuing ventures associated with the Suharto family. We did not discover new Indonesian political connections after 1999 although it is likely that there were more ties than our research project was able to uncover. Using the DNB database, we extracted 97 Salim-affiliated company profiles of which seven had both a Salim family member and one of Suharto's children involved in them (Table 2).
- We created a database of board members, based on the available annual reports of Salim-Group companies. We found that only Sudwikatmono, a cousin of Suharto, frequently served as a director of listed companies although he relinquished all but one of his four directorships after the Asian crisis. Two of Suharto's children were shareholders and directors of the Salim

Goup's Bank Central Asia until 1997, but we found no other ties to Suharto's immediate family in publicly available annual reports.

Before drawing conclusions, we asked the opinions of bankers and trusted insiders regarding the rationale for the business-group's complex structure and on how political ties were embedded within the Salim Group's organization.

Tables 1 and 2 provide an overview of the data obtained on the ties between the Salim Group and the Suharto family while Table 3 combines information from different sources into an overview of the types of ties the Salim Group developed, and what kinds of benefits and costs these connections brought to it.

--- TABLES 1, 2, 3 ABOUT HERE ---

Case study context

The importance of political ties in Indonesia

Early Suharto-period (1965-1985). The ubiquity of political-business ties has been a recurring theme in Indonesia's economic history. When Suharto came to power, the Indonesian economy was in poor condition, with inflation running up to 600 percent a year. His predecessor Sukarno had discouraged capitalism and favored state-owned enterprises so that private firms were relatively small while large state enterprises were inefficient and hampered by the lack of a managerial class to run them. Short of a sufficient public budget, Suharto relied on businessmen to build up the Indonesian economy so that most business groups relied on his protection for their survival while the negotiability of rules and regulations provided an attractive way to boost their profits (Robison, 1986). As such, political connections were an important ingredient for business success. The benefits of political ties with Suharto came in the form of state contracts, loans from state banks or special regulations benefiting certain firms (e.g. the awarding of monopolies). Table 3 provides examples of specific benefits the Salim Group gained from its political connectedness.

In the early Suharto days, a number of business groups vied for government favors but, over time, a limited group of large ones arose, with the biggest and most successful ones being generally closely connected to Suharto, and with the Salim Group topping the list. Many of the successfully connected businessmen were migrants of Chinese descent. One reason for this preference was that ethnic Chinese businessmen did not pose a political threat to Suharto who paid much attention to preventing and eliminating political adversaries.

According to Beattie (2009, p. 226), Indonesia under Suharto exemplified a situation where ‘a corrupt, bloodstained dictatorship could nonetheless be an economically successful one.’ During his regime (1967-1998), industrializing the country and opening it to foreign trade and investment required that the commanding heights of the economy be controlled by a network of ‘cronies’ to whom Suharto handed out large contracts and lucrative monopoly licenses while the state-owned commercial banks were directed to lend to them (Beattie, 2009, p. 228). In return, these cronies had to tow his line and contribute to the fulfillment of his economic policies. The political ties of the Salim Group fit into this ‘state-ordering’ system where the government exercises coercive force and favors state enterprises along with private business groups willing to contribute in exchange for favors (Li & Filer, 2007).

Late-Suharto period (1985-1996). Suharto happened to rule for 32 years – an extraordinarily long period that stands in contrast to other countries like Brazil or India where comparable businessmen were not able to benefit from such long and stable political connections to grow their business groups. Once he had consolidated his power, Suharto ruled in a highly centralized manner, often by issuing decrees, and many decisions required his personal approval (Schwarz, 2004). Hence, to obtain favors, it was essential to have access to Suharto – including through his family members. When necessary, Suharto would overrule his ministers or replace them, and criticism of his patriarchic way of running the country could only be voiced outside Indonesia since the local press was tightly controlled.

Throughout his rule, he was able to maintain economic growth at an average annual rate of seven percent, which facilitated the explosive development of some business groups such as the Salim Group. As his regime progressed, Suharto's children increasingly became business tycoons themselves so that, especially during the 1990s, businessmen routinely offered shares or other benefits in large business projects to one of the President's children because they were 'encouraged' to do so. In exchange for their cut, Suharto's children would use their political clout to 'smooth' government approvals. In a biography of Suharto, Elson (2001) argued that he did not clearly distinguish between his personal interests and those of the nation, seeing them instead as one.[2] When he was accused of cronyism for giving monopolies to the Salim Group, his reply was that he had sought to develop the national economy by using a businessman who was willing to work hard (Australian Financial Review, 1995).

Asian crisis and post-Suharto period (1997-2003). In 1997, Indonesia was hit by the Asian crisis (1997-1998) which led to the forced resignation of Suharto in May 1998 as well as a free fall of the Indonesian currency, large-scale riots against the ethnic Chinese minority and a total collapse of the financial sector. This shock rendered most companies unable to operate. Hence, the new Indonesian government, which was assisted by the International Monetary Fund (IMF), moved in to re-capitalize various banks and to close others, and it demanded from their owners that they pay back the government's capital injections. Businesses that had cultivated ties with Suharto were now criticized and owners were threatened to be thrown in jail (a Suharto business partner and one of Suharto's children were indeed jailed).

When Indonesia moved from dictatorship to democracy in 1998, the initial locus of power was not very clear and firms perceived the country as being as corrupt as before but more difficult to navigate because corruption had become 'decentralized' so that some of the interviewed businessmen perceived a higher risk of expropriation by their enemies or by the politicians now in power. The latter's protection remained imperative because the Indonesian court system is notoriously corrupt and ineffective, thereby providing little legal protection. Thus, a respondent argued that political connections for the purpose of protection were still important: 'In the past, it was the [ethnic] Chinese firms that were more connected, they had protection. But now, even the very large family businesses have no complete protection, even when they are well connected.'

In this new environment, the patterns of government-business ties became more varied. Some firms cultivated ties to various political parties and government officials, both at the central and provincial levels while other business leaders – especially those that were not of Chinese descent – sought government posts themselves. Political-economists Robison and Hadiz (2004) argued that the post-Suharto period could be characterized as one of state-capture by elite economic groups, thereby demonstrating that political ties continued to be seen as valuable in Indonesia.

We will now analyze how the Salim Group designed its organizational structure to cope with the Suharto regime and the subsequent democratically elected governments.

Findings

The design: Organizational structure and political connections of the Salim Group

Concentrating political ties on Suharto's family members. Founded in the early 1950s by the Chinese immigrant Liem Sioe Liong, the Salim Group initially invited a family member of the then president Sukarno as a director of several companies. When Sukarno was replaced by Suharto after a coup in 1965, Liem had already established a relationship with General Suharto when he was a supplier to the latter's army division back in the 1950s. In this period, the Indonesian army was underfunded, and most generals formed ties with businessmen as a way of supplementing their budgets. The relationship between Liem and Suharto amounted to an arrangement whereby the army provided contracts and protection in exchange for money and goods. After he became president, the Salim family focused its political contacts on Suharto's family in contrast to those Indonesian business groups who spread their political connections over various government actors. In the early Suharto days, the Salim Group was involved in various foundations linked to the army, Suharto's wife and Suharto himself. We can interpret these arrangements as the Salim Group forming bridging ties to the Suharto family. The importance of such ties at this particular time in Indonesian history can hardly be understated. One banker told us later that, during the Suharto era, business groups without ties to the Suharto family would not be allowed to grow beyond a certain size.

Subsequently, Liem attracted a few partners who collectively became known as ‘the Liem investors’ – namely, the Djuhar family, Ibrahim Risjad and Sudwikatmono who was a cousin of Suharto and is sometimes referred to as Suharto’s step-brother because the latter spent part of his childhood years in Sudwikatmono’s family (Elson, 2001). The Liem investors jointly controlled a number of Salim-Group companies including large firms like Indocement, Indofood and First Pacific (listed in Hong Kong) which is the holding company for many of the Salim Group’s foreign direct investments. Annual reports revealed that these Liem-investor companies were structured into ownership pyramids in such a way that the Salim family had the control rights over the firms while the other Liem investors did not. Consequently, a political partner like Sudwikatmono could not make decisions although he benefited from significant cash-flow rights and sat on the boards of four large publicly-listed Salim Group companies – in particular, those that had benefited from state-mandated monopolies such as Indofood and Indocement – but he was by no means involved in all Salim companies, as our interviews and board member database show. The Salim Group also created links with Suharto’s children. For instance, the Salim Group’s Bank Central Asia, the largest non-state owned bank in the country, had two of Suharto’s children as shareholders and board members while the Salim Group held minority stakes in companies belonging to the children of Suharto, including his daughter Tutut and his son Bambang (according to the DNB database and newspaper articles).

Building a fragmented structure. The Salim Group always expanded by creating new legal entities (Sato, 1993) which added up to an estimated 300 companies at its peak. Sections of annual reports show that some Salim companies maintained ties with each other but others did not. The Group cultivated business connections to the Suharto family through joint ventures, co-shareholdings, board positions, charity-related activities and business transactions in addition to holding a weekly informal meeting with the dictator but these various types of ties were handled through separate group entities. Ventures with Suharto's children would also typically involve distinct legal entities since they were known to quarrel extensively over business contracts so that each one of them had a separate business empire.

Occasionally, other political or army figures became partners or board members in Salim-Group ventures but this practice was less prevalent. It is also worth noting that many Salim companies did not have any political ties at all – possibly in order to reduce the risks associated with political ties. In an interview, Anthony Salim told one of us that his later strategy was to focus more on what he called 'market-based enterprises' as opposed to the earlier focus on 'government-related business.'

These facts reveal a fragmented business structure with multiple political and business partners, and with the Group's separate parts unevenly integrated – some of them having more (or less) transparency, more (or fewer) political ties, more (or less) government support and more (or less) coordination with other parts of the Group. In this regard, a Salim executive told us that 'each partner needs a new structure because you cannot mix partners up.'

Informal ties in the post-Suharto period. The Salim Group's political ties decreased after Suharto's demise, and we did not uncover any new business activities with political ties in Indonesia after 1999. We interpret this situation as the result of the major backlash which the Salim Group experienced from their previous alliance with Suharto, following his fall from power, which almost wiped out the entire Group. After the regime change, there were a few instances of alleged corruption, and our interviews revealed that the Group donated to various political parties and had informal personal contacts with subsequent presidents. One respondent familiar with the Salim Group reported that Anthony Salim had several government people on his payroll in order to obtain privileged information, and he commented that '[post-Suharto] Indonesia is a very political environment. Everyone needs a political department [within the firm] to gather vital intelligence and maybe exert influence which in Indonesia is not institutionalized as lobbying is in the West.' As such, there was no change in the fragmented design of the Salim Group but its political ties were less visible and informally organized in the post-Suharto period.

Coordination mechanisms. The Salim Group's overall coordination was achieved through a 'holding' which functioned as the headquarters and personal staff of the Salim family. This 'holding company' is described in a Salim brochure but it was an informal rather than a legal entity and it did not 'hold' any shares. Salim managers from so-called 'OPUs' (operating units) would present major decisions to this holding company even though their OPU was a listed firm so that, formally speaking, its strategy should have been decided by its own board of directors. The employees of the holding were usually on the payroll of another Salim company – business cards received during interviews confirmed this situation – and OPU managers were required to send detailed performance data to Anthony Salim on a weekly basis. Respondents told us that the holding was essentially a 'virtual headquarters' that decided on overall strategy and created synergy among the Group's firms. Hence, high-level strategy originated from the virtual headquarters and not from the boards of the individual Salim companies whose members had limited knowledge and power.

We believe that many Indonesian business groups also operated with such a shadow-board structure whereby the owners took key decisions for all group-related businesses, regardless of the legal structures and responsibilities of the underlying individual companies. However, respondents were of the opinion that the Salim Group was more successful than other Indonesian ones in administering a compartmentalized type of structure. This advantage became evident during the Asian crisis when the Group negotiated with the new government and handed over large parts of it to the latter. According to interviewed bankers negotiating on the government side, the Salim Group was the best-run group they dealt with, which made the ownership transfer relatively smooth and fast. We now turn to how the compartmentalized structure was used on multiple occasions to protect the Group.

The processes: Preventing the adverse impacts of political connections

Segregation of partners to maintain their unique value. We saw that the Salim Group was structured in such a manner that political ties were purposefully segregated from one another as well as from other types of ties (e.g., business partners). Corroborating this view, one Salim executive interviewed by us said that 'partners cannot be mixed up.' For instance, the Salim Group appeared to have been the only family business group with an informal weekly meeting with Suharto, and their intimate ties with Suharto himself were organized without creating connections to other partners. In addition, we found formalized ties with Suharto's children but mostly in distinct legal units which were in turn separated from the legal entities in which Sudwikatmono played a role, and this may have been done in order to avoid bringing possible quarrels amongst the Suharto children into the business. As such, the segregation made by a compartmentalized structure provided unique access to the Suharto family without the value of each political tie being diminished through any tie overlap which could have reduced their unique value.

Isolation of partners to limit misappropriation of resources. The danger of expropriation by political partners was a very real threat for the Salim Group as Suharto regularly placed demands on it (see Table 3 for some examples). Of our list of forty business situations that involved political ties, five of them concerned activities in which the Salim family rescued businesses owned by, or associated with, the Suharto family. Yet, the Salim Group was protected against excessive demands because its political ties were located in particular sections so that each partner had limited knowledge as to which firms belonged to the Salim Group. Interviews with bankers suggested that a political tie was 'always hidden' and its voting power curbed by design. It also helped that people did not fully understand what units belonged to the Group, thereby remaining unconnected to other units. For instance, Sudwikatmono's knowledge of the Group was limited to those businesses in which he was involved, and he did not hold control rights over any one company. One respondent referred to the 'bits and pieces' of business that were the result of favors to the Suharto family – an expression suggesting that the Salims created separate units for such favors instead of mixing them with existing businesses.

Based on our interviews with former government officials, we believe that the Suharto government underestimated the true size of the Salim Group and that some companies' real ownership was hidden so that Suharto could not make demands that the Group could not satisfy.

From these instances, it is apparent that organizational compartmentalization guaranteed limited knowledge of the total Group as well as power over it, thereby ensuring that 'favors' did not become an unbearable burden. As such, the tactics of limiting official voting power and hiding information on the Group's scope from political ties provides support regarding the use of the second mechanism designed to limit misappropriation of Group resources by political partners through compartmentalization.

Limiting contagion of reputational and legal damages to the entire organization. During the 1997-1998 Asian Crisis, the Salim Group lost its patron Suharto and fell on hard times so that this period is particularly relevant for detecting the mechanisms which the Salims used to limit the damages resulting from the new regime. Thus, the Salim banking unit which had co-opted Suharto's children fell victim to a bank run that depleted its resources in addition to bank branches being torched by angry mobs, and it was taken over by the new Indonesian government. The latter demanded that the Salim Group hand over assets worth US$5 billion as a compensation for rescuing that bank, plus a fine for illegal practices discovered in the bank's operations.

However, given the severity of the Asian financial crisis in Indonesia, it was decided that the owners of collapsed banks could repay the new government for previous capital injections with assets of, or shares in, companies rather than with cash. In response, the Salim Group leadership proposed handing over to the Indonesian government a series of companies collectively worth US$5 billion by way of a settlement. Still, as a result of its fragmented structure, nobody quite knew how big the Salim Group was even though it was the largest actor in the Indonesian private sector! One government official commented that: 'We were also surprised that they came up with all these companies.'

When one Salim executive was asked by us why his company was not handed over to the Indonesian government during the Asian crisis, he explained that it had not been put on the table during the negotiations because other assets were sufficient to cover the US$5 billion settlement. Hence, the Salim family was in a rather favorable bargaining position because its fragmented structure allowed much opacity, and the Group could turn over particular companies until it reached the required settlement amount while the rest remained out of reach of the new government. Had the Salim Group consisted of a single firm of which it would have been required to hand over US$5 billion in equity, the family would surely have lost its control rights over all of its assets whereas its compartmentalized organizational design allowed the Salim family to hold on to several parts of its empire.

While the Group came under attack from some of the new government's members who wanted to dissolve the Group and jail its leaders, it managed to avoid that fate.[3] One reason was that the Salim Group was 'too big to fail' since it employed more Indonesians than any other business group at the time so that its outright bankruptcy would have brought another blow to the already fragile Indonesian economy. Besides, the new government acknowledged that it did not have the capacity to manage the remains of the sprawling Salim Group which covered essential industries like food, cement and basic chemicals that Indonesia needed.

Still, the Salim ventures were, in the eyes of the public and the new government, linked to 'crony' business activities and, as such, were vulnerable to expropriation. Thus, two cabinet members, who served in the post-crisis government and were interviewed for this study, acknowledged their intention to break up the Salim Group, and several large Western multinationals, of which we interviewed board members, were told by the new Indonesian government to stop cooperating with the Salim family. These hostile actions of the new Indonesian administration led to considerable losses for the Salim Group which had to withdraw from various high-profile joint ventures with foreign partners.

Yet, after handing over shares in 107 firms to the new government, the Salims bought back several of their old companies when the new authorities subsequently sold them. Executives involved in the holding company acknowledged such repurchases but, in later annual reports, there is no mention of the Salims because the formal 'nominees' or proxy owners did conceal ultimate Salim ownership. Besides, the Salims managed to use their opaque and fragmented structure to disentangle some key cash cows (in particular, Indofood) and bring them under the umbrella of a foreign Salim company, thereby reducing exposure to the political risks of the new Indonesia.

These events demonstrate the benefits of the high degree of flexibility allowed by a compartmentalized structure, and they reveal how an opaque organizational structure was used to limit reputational and legal damage from those parties that sought to appropriate Group assets and/or wanted to have Suharto cronies punished. On the one hand, the political connections between the Salim Group and the Suharto clan were too well-known to prevent the *reputational damage* occasioned by charges of cronyism and corruption. On the other hand, it was impossible for the new government to identify all the parts of the Group that were connected to the Suhartos so that the *legal penalties* imposed by the new rulers could only be limited – thereby validating the usefulness of our third mechanism about how to avoid damage to the entire organization.

Detaching fallen ties to limit political liabilities. When the new government negotiated with the Salim Group and seized many of its assets by way of settlement, several of the companies that used to have ties with the immediate Suharto family (e.g., his children) were handed over but government bankers only got those portions owned by the Salim family's involvement without there being any trace of the Suharto family even though the bankers knew that the Suhartos owned some interests in these businesses. This situation reveals that the Salim Group was able to disentangle the Suharto connection from these particular firms. For that matter, the Salim Group bought the Suharto family out of some of its businesses, and interviews with government officials and annual reports suggest that the Group was able to disentangle its own interests from its political connections (e.g., with board members like Sudwikatmono resigning) without formally denouncing their former political friends.

As such, the opaque compartmentalized structure of the Salim Group provided significant protection against the unanticipated Asian Crisis and subsequent regime changes. While, in our estimation, the Salim Group may have lost up to half of its investments under the new government, they were able to disentangle and hide various parts of the Group and certain political connections, thereby lending support to the use of our fourth mechanisms whereby compartmentalization helped limit the damages linked to political-power changes.

Table 4 relates the buffering mechanisms used by the Salim Group to key respondents' comments which provide support for our arguments.

--- TABLE 4 ABOUT HERE ---

Discussion, implications and conclusion

Contributions to resource-dependence theory

Our study focused on the use of organizational structure which Kotter (1979) had identified as a major mechanism for reducing dependence on external actors but which other resource-dependence and political-behavior researchers had largely overlooked. To be sure, structure has been extensively studied (Chandler, 1962; Greenwood & Hinings, 1988; Miles & Snow, 1986) but most of its research has focused on the choice among product, function and area bases as well as between the M(multidivisional) and U(unitary) forms – a topic unrelated to resource dependence. Instead, one of the insights of our study is that organization structure may constrain the formation of an optimal network of the political ties necessary to deal with organizational dependences but that, as a consequence, managers seek to design the organization in such a way as to optimize the achievements of network goals. Therefore, we emphasized the buffering roles of a compartmentalized structure for segregating, isolating, hiding and cutting off political ties. In this context, our study validated the argument of Casciaro and Piskorski (2005, p. 168) that, in situations of reciprocal reliance, organizations must simultaneously handle the parties' power imbalance and mutual dependence – both of which evolve over time and alter the power dynamics between the two sides. Thus, Suharto, his family and related political actors were able to develop links with the Salim Group because coercion – a case of power imbalance – allowed them to control the resources essential for the success of the Group while mutual dependence was reflected in the fact that the survival and performance of Suharto's industrial policies depended on the cooperation of business groups such as the Salim one – particularly, because the Suharto clan and the Salim Group were each other's most valuable ally.

Besides, our evidence permitted us to trace the evolution of the two sides' relationships – from the power imbalance prevailing at the formative stage to the post-formation phase during which mutual dependence increased. Thus, buffering mechanisms were used from the outset in order to segregate political partners from each other and to limit the latter's power and knowledge that would have allowed them to grab too much compensation for their services but also in anticipation of reputational and legal damage as well as of unfavorable regime changes at later stages. As such, resource-dependence theory, which focuses on *ex-ante* power imbalance, benefited from the complementary perspective of transaction-cost economics which highlights the *ex-post* ways in which the actors seek to protect the resources they invested in political ties (Casciaro & Piskorski, 2005, p. 193-194).

Moreover, a long-lasting dependence relationship such as the one between the Suharto clan and the Salim Group is made up of 'rounds' wherein power imbalance and mutual dependence fluctuate. The two parties were kept in balance largely because the Group's compartmentalized structure was flexible enough to cope with continuous and varying demands from the Suharto side and opaque enough to prevent its political partners from figuring out its *Gestalt* – precisely, the 'timing and secrecy' mechanisms which Katila and co-authors (2008, p. 322) think are crucial for the defense of the dependent partner because they are relatively less expensive, faster and relying on an information asymmetry that favors the less-powerful side (Katila et al., 2008, p. 323).

We also confirmed the Casciaro and Piskorski (2005, p. 180) argument that less-powerful organizations are likely to increase their autonomy by restructuring their dependences – an endeavor at which the Salim Group succeeded on account of its ability to unilaterally structure itself through a compartmentalization strategy that did not require the consent of the more powerful Suharto clan. In this regard, situations involving power imbalance between a private-sector player and a public-sector political tie provide a context in which the less-powerful firm is more likely to use organizational design to mitigate mutual dependences – especially, when the dependent party has accumulated resources which could be appropriated by the more powerful political party and, hence, must be protected from the very beginning of the relationship.

Furthermore, our study revealed a level of sophistication in boundary management by the Salim Group that we did not find matched by other studies of organizational structures. Compartmentalization and an opaque structure like the ones used by this group can multiply the options for boundary management – even leading to indefinite borders (Meyer & Lu, 2005) which boundary scholars (Oliver, 1993; Santos & Eisenhardt, 2009) have not yet explored. In this respect, an important finding is that business groups can manage their boundaries effectively because their compartmentalization lends additional complexity that allows for a wider variety of buffering tactics, and because informal structures (such as a virtual headquarters) also enable boundary-management tactics irrespective of legal ownership.

Additionally, our analyses showed that the Salim Group's political strategies differed markedly between the Suharto and post-Suharto eras. The former was mostly characterized by formal political ties and the latter by informal and invisible ones. Yet, the Salim Group's compartmentalized organizational structure persisted throughout these two periods – a situation suggesting that such a structure offers great flexibility in implementing buffering strategies both when political power is concentrated and formal links to political actors are tolerated (as happened during Suharto's dictatorship) as well as when it is dispersed and cozy relationships with political actors are no longer officially condoned (as developed in the post-Suharto democratic era).

Finally, resource-dependence theory, like other theories, relies heavily on causal concepts that signify the dynamics of action and change, and imply underlying causal processes (Campbell, 2004, p. 62). However, the mechanisms and processes that account for causal relationships among the variables are poorly specified in most theoretical studies. In this respect, our analysis enriched the application of resource-dependence theory by revealing how the management of power imbalance and mutual dependence can be achieved through compartmentalization. In other words, it is not enough to prove that organization structure helped protect the Salim Group against the four risks detailed in our study but we must also disclose the mechanism whereby this goal was achieved – namely, the buffering provided by the compartmentalized structure of the Salim Group.

Limitations

We based ourselves on a single case study which may not be representative of other business groups and emerging economies. Besides, we left out of our analysis how the Salim Group mitigated its dependence on Suharto by using other strategies associated with resource-dependence management such as diversification, internationalization and growth (Greenwood & Miller, 2010) as well as the other ones identified by Kotter (e.g., domain selection). For instance, the Group's foreign direct investments in other countries partly shielded it from the new Indonesian political environment and they were used as a source of cash to cope with problems at home. We also did not analyze the difference between legal and illegal political ties which may require different buffering strategies and organizational structures.

Moreover, we focused on the benefits of compartmentalization but there may also be costs associated with this buffering tactic as it may decrease positive spillover effects from political ties. In this respect, keeping these ties ignorant of certain group businesses eliminated the opportunity that they could add value to these other endeavors as well – for example, through favors or relevant business information. As such, it could be better to forego some benefits of political ties designed to limit their potential liabilities to the group.

Conclusion

To our knowledge, this study is the first one to draw on resource-dependence theory to show how the use of a compartmentalized business-group structure can mitigate the negative effects of political ties on which a firm depends. Besides, we shed new light on the organization of business groups whose study, so far, has emphasized their synergistic 'coupling' benefits while we demonstrated that their 'loose-coupling' compartmentalization provided significant advantages in protecting the rents resulting from their political ties. By relating our findings to recent extensions of resource-dependence theory, we provided further support to these new perspectives on power imbalance and mutual dependence. Moreover, we built upon the literature on political ties which have recently paid attention to the 'dark side' of political connections by showing how the risks associated with maintaining political connections can be mitigated through organizational design. As such, our empirical study has contributed to theory-building by increasing our understanding of the causal mechanisms involved in the use of organization structure to protect a dependent firm.

More importantly, Davis and Marquis (2005, p. 332) emphasized that the central focus of from theorizing should be on 'organization design' which, according to Greenwood and Miller (2010, p. 78), has been neglected for too long. They urged that we return to the earlier tradition of focusing on 'types of organization' (March, 1965) and of analyzing them separately in lieu of searching for universal rules pertaining to all of them. Our study of the organization structure of business groups in emerging markets belongs to this tradition and, therefore, has contributed to 'getting back to the heart of organization theory' via the recently extended resource-dependence theory.

While our study was situated in an emerging market and analyzed patterns of organizational design and connectedness that are common in such a context, we think that it can also have wider implications for organization theory. That is, the notion that external actors on which the firm depends have to be managed and that a compartmentalized organizational design is one instrument to achieve this goal also applies to firms operating in developed economies. In fact, research by Westphal and Zajac (2001) showed that large U.S. firms created formal structures to address external pressures while not making any substantive changes in their organizational practices. Therefore, a promising way of reviving the interest in organization structure will be to further extend resource-dependence theory by investigating how firms in different institutional and industry contexts use compartmentalization to deal with inevitable dependences.

[1] Meznar and Nigh (1995, p. 976) defined buffering in much broader terms as 'trying to keep the environment from interfering with internal operations and trying to influence the external environment.' We think that the second part of their definition blurs the distinction between bridging (an action to connect the organization to its environment) and buffering (shielding the organization from external interference). Hence, in this analysis, we stick to the original definition proposed by Thompson (1967) and later expanded upon by Pfeffer and Salancik (1978), Fennell and Alexander (1987) and Scott (2003).

[2] Suharto's rule bears some resemblance to that of Cosimo de Medici in Renaissance Florence, as analyzed by Padgett and Ansell (1993), to the extent that ambiguity was a core ingredient of his source of power. They noted that 'the key to understanding Cosimo's sfinxlike character […] we argue, is multivocality – the fact that single actions can be interpreted coherently from multiple perspectives simultaneously, the fact that single actions can be moves in many games at once, and the fact that public and private motivations cannot be parsed'. (Padgett & Ansell, 1993, p. 1263)

[3] Actually, the whole Salim family fled to Singapore to escape the violence, and founder Liem never returned to Indonesia. Instead, he handed over control to his son Anthony who came back to Indonesia to deal with the new political and economic problems and to position himself as a modern businessman who was not keen to rely on political relationships.

Tables

Table 1: Business events derived from the Lexis Nexis database and showing the Salim Group's involvement in political connections (1984-1999)

Categories	Number of events
Partnership with member of the Suharto family	12
Partnership with political actors outside Indonesia	6
Special favorable government treatments	6
Bailing out of Suharto-family ventures	5
Salim Group encouraged to be the first to implement new Suharto government policies	6
Other (e.g., partnership with Indonesian government agencies and alleged corruption cases)	5

Table 2: Company profiles from DNB Database with Suharto connection*

Company Names	Salim-family member(s) involved	Suharto-family member(s) involved
Indohero Steel & Engineering	Andree Halim (director)	Bambang Trihatmodjo (director)
Kayu Lapis Asli Murni	Anthony Salim (president) Albert Halim (director) Soedono Salim (commissioner)	Sigit Harjoyudanto (commissioner)
Sinar Mas Inti Perkasa	Soedono Salim (vice-chairman) Anthony Salim (vice-president)	Hutomo Mandala Putra (vice-chairman)
Gula Putih Mataram	Anthony Salim (managing director)	Bambang Trihatmodjo (chairman) Hutomo Mandala Putra (shareholder)
Melapi Timber	Anthony Salim (president) Albert Halim (director) Soedono Salim (shareholder)	Sigit Harjoyudanto (chairman)
Sarpindo Soyabean Industry	Anthony Salim (vice-president) Andree Halim (shareholder)	Sigit Harjoyudanto (shareholder)
Batamindo Investment Corporation	Anthony Salim (managing director) Andree Halim (shareholder)	Bambang Trihatmodjo (shareholder)

* In 2007, we retrieved 97 company profiles that had a Salim family member as either shareholder or executive. Of these, seven had both a Salim-family member and one of Suharto's children associated with the company. However, inclusion in the DNB database does not necessarily mean that the companies are still operating or are under the same management/ownership.

Table 3: The Salim Group's political-tie types, benefits and costs

	Patterns Found	Examples / Sources / Quotes
Types of political ties formed	- Suharto family members are shareholders or board members in some (but not all) Salim Group firms - Salim Group holds stakes in some (but not all) Suharto-related ventures - Salim family sits on non-profit boards associated with Suharto - Informal ties with Suharto directly in the form of regular personal meetings	-In Bank Central Asia, a Salim-controlled bank, two of Suharto's children held shares and a board position -The Salim Group owned a minority stake in a listed toll-road company controlled by Tutut, one of Suharto's children -The Salim Group partnered with Bambang, one of Suharto's children, in various business ventures ranging from the media to the petrochemical industry -Liem was Suharto's deputy in a foundation aimed at eradicating poverty, called Yayasan Dana Sejahtera Mandiri, which collected money from people and companies under a special decree issued in 1995
Benefits of political ties	- Special business opportunities and contracts (e.g., monopolies and access to credit) - Special rules or exceptions to rules that benefited the Salim Group - External parties sought partnerships in exchange for co-utilizing political ties - Access to information on opportunities or threats	-'Liem industrialized by borrowing money from the state banks. He was a supplier of Suharto and because of that he got access to credit' (person familiar with the Salim Group) -Several Salim companies enjoyed monopolies or special licenses, including Bogasari (the world's largest flour miller and, later, part of the Salim firm Indofood) which was given a milling monopoly -According to newspaper articles, Indocement (a Salim company) was bailed out by the Indonesian government in 1985, the latter buying up 35 percent of the shares. It was then listed in 1989, despite not meeting the listing criteria, by means of an exceptional ministerial decree -Upon asking why the Salim Group had not hedged their US-dollar loans prior to the Asian Crisis of 1998, a respondent mentioned that the government assured them that the currency would not be devalued. It turned out that this information was incorrect but it shows that the Salim Group relied to some extent on government information for their business decisions -A banker said that Anthony Salim actively tried to gather information from the government, and that he had government people on his payroll for this purpose

Costs of political ties	- Suharto requesting personal or professional donations - Requests for bailing out Suharto-family linked ventures - 'Encouragement' to provide an example in implementing state policies - Backlash after Suharto's fall from power in the form of both mob violence against the family and its firms, and political pressure to dissolve the Salim Group	-Sudwikatmono was quoted in the Asian Wall Street Journal in 1994 saying that the Liem Sioe Liong bailed out Bank Duta, associated with a Suharto-related foundation, for US$200m in 1990 -In an interview with Tempo magazine in 1984, Liem said that he entered the steel industry to help the government while his son Anthony added in that same interview that the US$800m investment was perhaps not the best possible business decision, but they saw it as a 'special task' – that is, for the government which wished to embark on a new phase of industrialization -The articles of association of Bogasari, a Salim-owned flour-milling company which benefited from a state monopoly, initially mentioned that 26 percent of the profits should go to two foundations associated with Suharto -One executive of a global MNC which had a partnership with the Salim Group in Indonesia, narrated how he received calls from the then Minister of Economic Affairs of the post-Suharto government, saying that the Salims were not any more very much liked in Indonesia, and that he had better take over the venture. He also said that taking over the Salim Group shareholding in the joint venture put him in an odd position because it was illegal at the time to have a fully-foreign-owned company

Table 4: Compartmentalization structure and buffering mechanisms

Buffering mechanisms	**Tactics used by the Salim Group**	**Illustrative quotes from interview respondents**
Preventing political ties from being linked to other ones	Fragmented corporate structure with political ties only present in certain parts of the Group; different political ties put in separate and informally coordinated companies.	'Each partner needs a new structure, because you cannot mix them up.' (Salim executive) 'You have to differentiate between the Salim Group – Salim family owned – and the bigger group comprised of the Salim partners and the Liem investors. Salim Group may have some activities in which the Liem investors have a stake. But the Salim Group also has its own business. For example, the Liem investors invested in First Pacific and Indocement. The Salim family has Indomobil, plantations and so on, where the Liem investors have no role.' (Salim executive)

Preventing political ties from misappropriating resources	Limited information and voting power of political ties did prevent excessive appropriation	'I was appointed on the board [of a public Salim company] as a government representative, as commissioner. I don't know if you know the role of a commissioner, it is basically very limited. You can limit the role of the commissioner in the articles of association. Some of those board members are social figures, like a general or something. You even have a term for this here, there is a distinction between an active and non-active commissioner.' (Government official) 'For example when a company has a certain monopoly, you may want to give some minority shareholding in a special-purpose vehicle (which partly owns Company A) – but not directly in Company A. This ensures that the political party has no voting rights.' (Banker)
Preventing political ties from spreading reputational and legal damage to the entire organization	Limited understanding of scope of the business group by outsiders did limit the options of hostile politicians to hurt the firm: only group units with known political ties were attacked	'There is no legal ownership but informal ownership in the Salim Group. The legal ownership [of the Group] is basically all over the place, that's how Anthony Salim wants it. It is not wise to have a pyramid of ownership leading up to him. [Instead,] it basically leads to unknown people and companies.'(Banker familiar with the group) 'In this structure, the political tie is hidden. You can look at listed companies but it is hard to find out. If you then go and check out the SPV [special purpose vehicle], you find the same people, it does not tell you anything. When we got the Salim companies, that was almost always the case – this structure with the political ties.' (Banker)
Preventing political ties from turning into a political liability for the group	Portions of the group were spun off or hidden to protect the group from political interference; political ties sitting on Salim company boards resigned.	'When we [the government] got the assets, we only got the portions held by the Salim Group, not by the first [Suharto] family, even if we knew they were involved in some of the businesses.' (Government official)

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