Coevolution of Institutions and Corporations in Emerging Economies: How the Salim Group Morphed into an Institution of Suharto's Crony Regime

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In memory of Wladimir Sachs

In the course of publishing this article, my co-author Wladimir Sachs unfortunately passed away. I would like to dedicate this article to Wlad, whom I will miss as a dear friend, an original thinker, a fierce fighter against unnecessary rules and outdated conventions, and an inspiring mentor.

Abstract

We investigate whether large family groups in emerging economies can proactively change their environment. We use a coevolutionary approach, which accounts for the influence of context on the entrepreneur and for the freedom of the latter to modify it. We find that entrepreneurs can shape institutions to their advantage, illustrated by the Salim Group, which achieved growth by aligning with and influencing politicians, eventually "morphing into an institution". We unravel unique coevolutionary patterns, which we use to extend existing theories. Our first contribution is to initiate a new line of inquiry in coevolution theory, focusing on individual companies coevolving with institutions. Secondly, we document factors that increase and decrease strategic choice for family groups in emerging economies. Thirdly, we find that the Salim Group became part of the crony Suharto regime. The group became both an institutional entrepreneur and an entrepreneurial institution, demonstrating that companies and institutions are not necessarily mutually exclusive.

Keywords: Coevolution, Indonesia, Institutions, Institutional Entrepreneurship, Political Ties, Non-Market Strategy, Family Business, Ethnic Chinese Business.

Introduction

Research on the interaction between companies and their external environment has a focus on how companies adapt themselves to external challenges. Institutional theory (e.g. DiMaggio & Powell, 1983; Scott, 1995) for example, provides us with insights on how formal and informal institutions affect corporate behaviour. The reverse, companies influencing institutions, is less often studied, because corporations are often, but not always, too insignificant to have an impact on institutions. Coevolution theory explicitly addresses the two-way and long-term interaction patterns between companies and their environment, capturing both adaptation to, and more active influencing of, institutions. Coevolutionary frameworks have successfully been applied to develop our knowledge on the evolution of industries (Haveman and Rao, 1997; Lampel and Shamsie, 2003), technologies (Jenkins and Floyd, 2001), or organizations (Lewin et al., 1999)

With a few exceptions (e.g. Carney and Gedajlovic, 2002; Child and Tsai, 2005; Rodrigues and Child, 2003; Suhomlinova, 2006), scholars interested in coevolution have focused on the dynamics of organizations in developed markets rather than in emerging economies. As a consequence, there is still limited knowledge on the coevolution of organizations and their environment in a context characterized by less developed institutions. In many emerging economies, wealth is frequently concentrated in the hands of a few large family business groups (Claessens et al., 2000; La Porta et al., 1999), which tend to be highly diversified in many corners of the domestic economy (Khanna and Palepu, 1997). It is not unusual that these wealthy business families are closely linked to national institutions, sometimes to the extent that there is a cosy relationship between political actors and wealthy families (Morck and Yeung, 2004). The existence of powerful business actors with their hands in many industries, who often enjoy easy access to the government, offers a context in which corporations are likely to have the power to influence the rules of the game in a country.

Moreover, many emerging economies are characterised by weak and immature institutions (Peng, 2003). Weak institutions tend to be changed and influenced more easily than their more stable and accepted counterparts in mature economies (Oliver, 1991). These two features of emerging economies

–the ubiquity of powerful and well-connected business actors and weak domestic institutions – are conditions that can facilitate a powerful two-way dynamic between the development of corporations and institutions. Nevertheless, very few studies have focused on such interactions in emerging economies. We therefore lack an understanding of the circumstances that enable corporations to become "institutional entrepreneurs" (DiMaggio, 1988), particularly in the context of an emerging economy.

Can powerful business families in emerging economies influence their institutional environment? If they can, how do the patterns of mutual influence between companies and institutions act out over time? In this paper, we address these questions, using a coevolutionary approach (Lewin & Volberda, 1999). We study the most powerful actor in an emerging market, a business family with close connections to a long-term dictator. Observing the influence of a single corporation on its macro-environment is an empirical challenge, since most corporate actions have an impact that is too insignificant to be readily observable. However, some select entrepreneurs enjoy unique positions of power. In Indonesia, for example, during the thirty-two years of Suharto's dictatorship the Indonesian economy was characterized by a highly symbiotic relationship between its institutions and a small group of companies, leading to what has been called "crony capitalism" or cronyism (Khatri et al., 2006). We focus our study on the largest of these companies, the Salim Group, as such a focus provides us with a rare opportunity to explore whether and how a large, dominant company can influence Indonesian institutions and how it was in turn required to adapt to its changing domestic context.

Our case study of the Salim Group contributes to the development of coevolutionary theory in two ways. First, we demonstrate that, as far as we know for the first time, coevolutionary frameworks can be applied to a *single* company interacting with national institutions. This is possible because the firm we studied was active in many industries and enjoyed a position of power at a national level. Other studies have mainly focused on single companies influencing the dynamics of industries (micro-meso), or industries influencing national institutions (meso-macro), but not directly on micro-macro level interactions (McKelvey, 1997). Second, it complements existing coevolution studies by focusing on a context that is seldom studied, namely family businesses in an emerging market. Our study documents

coevolutionary patterns that have not been identified in prior research, and we use our findings to extend existing theoretical frameworks.

Our study is organized as follows. In the first section, we review theories of interdependence between institutions and corporations. In the second section, we outline the coevolutionary approach, suggesting how it can integrate various conceptual lenses, and how it may apply to studies like this one. We follow with a description of our methodology, and then narrate the coevolutionary history of Indonesia and Salim. We subsequently interpret our case findings in terms of coevolutionary patterns, and use these findings to reflect on existing theories.

Corporate–Institutional Interactions in Emerging Economies

The best known framework exploring a company's relations with its environment is institutional theory (DiMaggio & Powell, 1983; Zucker, 1987). It is commonly accepted that institutions, sometimes referred to as the "rules of the game", have an important influence on corporate strategy (North, 1990; Scott, 1995). In emerging economies, institutions are argued to be less mature and more unstable (e.g. Peng, 2003) than in developed economies. This has implications for the corporate landscape in these nations. On the one hand, researchers evoke institutional theory to explain why emerging market players prefer strategies of diversification into many industries and building extensive networks based on trust (Hoskisson, et al., 2000; Khanna and Palepu, 1997). Such strategies are argued to be rational in the face of institutional voids (Khanna and Palepu, 1999). If one looks at the ownership of private sector-companies in emerging economies, there is often a concentration of wealth and market power in the hands of a few large and diversified business groups (La Porta et al., 1999).

Several scholars recognize the dynamics in emerging market institutions, and theorize that transformations in the business environment may produce an altered business strategy that matches the new context (Hite, 2005; Khanna and Palepu, 1999; Peng, 2003). These scholars argue that corporations adapt themselves to institutional change over time. When firms do not adapt to new circumstances,

internal factors, such as corporate culture and firm history are argued to function as constraints. This is sometimes referred to as "path-dependency" (e.g. Garud and Karnoe, 2001). In examining such adaptations, institutional theorists have generally assumed that institutions are exogenous, and they have focused on corporate adaptation processes to macro-level changes.

A second perspective emphasizes takes the corporation as a level of analysis. Strategic choice theory views corporations as purposeful entities that are capable of setting their ends and pursuing them under various environmental conditions (Child, 1997). In this view, an entrepreneur can use corporate resources and capabilities to wilfully influence the context, modifying it to suit his or her needs. The resource-based view of the firm (e.g. Barney, 1991; Penrose, 1958) argues that firm-specific capabilities are a starting point for developing its future strategies. Depending on the specific resource base of the company, it may have more or less power to plot its own course of action. In other words, although history matters, most strategic management theories show that managers are not powerless in the face of conditioning environmental factors and can design strategies to create value based on existing firm resources.

Several attempts have already been made to bridge the strategic choice and institutional perspectives. The first perspective that bridges external circumstances and internal resources is the resource dependence model (Pfeffer & Salancik, 1978). Organizations that are highly dependent on external resources tend to act in ways to minimize their dependency, for example by shifting to other resources, by creating social networks with external actors to ensure a lasting supply of the scarce external resource, or even by absorbing the external party. Within emerging economies, the government often intervenes more extensively in the private sector and institutions are less predictable. Emerging market companies therefore depend on domestic institutions in important ways. In order to mitigate this dependence, companies employ various strategies. They may try to increase their independence by internalizing roles that would otherwise be played by market intermediaries (Khanna and Palepu, 2000). A trusting network of partners, for instance, may replace protection by the law (Xin and Pearce, 1996) and an internal capital market can substitute for sourcing capital from banks or the stock exchange

(Porter Liebeskind, 2000). Furthermore, the market power and connections of large companies in emerging economies tend to shift bargaining power towards the government.

Another attempt to bridge institutional theory and strategic choice approaches is the introduction of the concept of agency into institutional theory (Barley and Tolbert, 1997; Beckert, 1999; Kondra and Hinings, 1998). The term "institutional entrepreneurs" was coined to denote actors with sufficient resources to change existing institutional arrangements in their own interest (DiMaggio, 1988). Companies endowed with more resources are generally in a better position to influence institutional settings (Oliver, 1991; DiMaggio, 1988).

A third theoretical lens, the cronyism approach, considers how business leaders interact with politicians on a personal level. Emerging economies are more often characterized by crony relationships than developed markets (Khatri et al. 2006). While cronyism within corporations (between superior and subordinate) is seen as detrimental for organisational performance (Khatri and Tsang, 2003), crony ties between managers and political actors are seen as beneficial for the organization (Peng and Luo, 2000) but not enough to assure organisational performance; for that managerial competence is also essential. Crony ties are viewed as unethical where corruption and rent-seeking is involved. While studies of cronyism do focus on the interaction between government and business, the research in this area is currently limited to the benefits of interpersonal ties for company performance (e.g. Faccio, 2006), rather than the spill-over effect of individual crony ties on domestic institutions.

Depending on temperament, networks, environment, and resources, various entrepreneurs will have a greater or lesser propensity to accept the rules of the game. Combining these theoretical lenses leads to a range of possible corporate strategies *vis a vis* institutions. Ackoff (1974) proposes to classify corporate attitudes into inactive, reactive, preactive and proactive (or interactive). Child and Tsai (2005) offer a similar classification into passive, reactive and proactive. Oliver (1991, p.151) talks about acquiescence, compromise, avoidance, defiance and manipulation strategies towards institutions. Institutional approaches are associated with passive and adaptive strategies, whereas strategic choice and cronyism theories tend to emphasize more proactive or manipulative approaches towards the firm's environment.

A framework that integrates both proactive and adaptive corporate strategies is coevolutionary theory. Coevolution is based on the notion that entities that are part of a larger system influence each other's evolution. It recognizes the feasibility of a range of adaptive and proactive strategies by introducing different levels of analysis, and by adding a temporal dimension. Given that our research aims at investigating the mutual interactions of corporations and institutions in the same environment, coevolution theory is an appropriate framework for bringing together the above mentioned theoretical approaches. The next section discusses the coevolution framework in more detail.

Coevolution Framework

We use a coevolution framework to study corporate-institutional interactions over time. Coevolution theory originally emerged in ecology to describe situations where two or more species influence each other's evolution (Ehrlich and Raven 1964; Nitecki, 1983; Thompson, 2005). The fundamental insight is that species sharing a habitat are part of each others' environment, and therefore influence each others' evolution. Unravelling the mutual adaptation mechanisms is the object of research by coevolutionary theoreticians.

Using the umbrella concept of coevolution enables us to combine the above mentioned theoretical lenses because it assumes that corporate-environment dynamics vary over time in intensity, causality and impact. This enables us to study firms and their impact on institutions, as well as organizational adaptation to changing realities. In addition, the coevolution framework calls for multiple levels of analysis, covering macro, meso and micro levels, which enables us to combine theories on an institutional, organizational and interpersonal level. Coevolution studies stress that the dynamics within and between organizations are multi-directional, non-linear and affected by contextual and historical factors (Lewin and Volberda, 1999).

The metaphor of coevolution has recently been applied to management (e.g. Lewin and Volberda, 1999; McKelvey, 1997; Volberda and Lewin, 2003). Although the number of empirical studies in this field is still modest, the insights derived from using this framework have greatly advanced our understanding of organizational evolution. As coevolution theory was originally informed by organisational ecology, management scholars started from the point of investigating populations of organisations, in particular how industries evolve over time in tandem with institutions (e.g. Djelic and Ainamo, 1999; Haveman and Rao, 1997; Jones, 2001; Lampel and Shamsie, 2003) or how new technologies are adopted and selected in a particular industry (e.g. Jenkins and Floyd, 2001). Coevolution studies have also been applied to the inter-firm level, for example to the evolution of alliances (Koza and Lewin, 1998) or the emergence of new organizational forms (Lewin et al., 1999).

A few coevolution studies deal with emerging economies (e.g. Tan and Tan, 2005; Carney and Gedajlovic, 2002; Child and Tsai, 2005). They record how companies co-shaped economic development in China and or in countries in Southeast Asia, showing that companies are not powerless in the face of institutional emergence and change, but they collectively shape the rules of the game in the private sector. Other empirical studies situated in emerging economies have focused on the interaction between companies within an industry on the micro-meso level (Rodrigues and Child, 2003; Sohumlinova, 2006). What emerges from these studies is how companies exercise influence over their environment, even if it is characterized by high levels of government intervention. The studies conclude that corporate networking strategies may increase the freedom of choice for emerging market companies. So far, however, there is little insight in the multi-directional influences occurring in corporate-institutional dynamics in emerging economies.

Organisational theorists have stretched the metaphor of coevolution in an important way: they introduced the idea of "managerial intent" (Lewin and Volberda, 1999) or use the concept of "human agency" (Carney and Gedajlovic, 2002) or "strategic choice" (Child and Tsai, 2005) to account for the purposeful actions of managers in changing the fate of their organisations. Oliver (1991) outlined different possible corporate reactions to institutional processes, thus classifying different levels of strategic choice. We use these ideas to stretch the metaphor of coevolution even further by arguing that

a *single* firm, rather than a population, may be able to manipulate its environment. In doing this we assume that strategic choice can not only be exercised by managers to change the course of their own organisations, but also that of the environment.

Our review of the management literature did not reveal any coevolution studies that primarily looked at a single firm coevolving with national institutions. A notable exception is the study by Rodrigues and Child (2003) of a Brazilian regional telecommunications company. It shows that even in a highly regulated context, companies can increase their level of strategic choice by immersing themselves in political networks. The study, however, does not show the direct influence of the company on Brazilian institutions. To our knowledge, the case we presented here is the first to explicitly examine the interplay between a single company and a nation's institutions.

Methodology

Lewin and Volberda (1999: 527-528) provide a framework for coevolution research, which encompasses studying firms with a longitudinal perspective, incorporating the political, social, and historical context, involving the description of multidirectional causes and effects, path dependence, and studying change at the level of different institutional systems (see also McKelvey, 1997). In order to show corporate evolution in tandem with its context, an in-depth and long term perspective is necessary. Further, studying non-linear dynamics in organizations usually call for multiple levels of analysis. For these reasons most research using a coevolutionary framework utilizes an in-depth, longitudinal case study methodology.

We are interested in whether and how large family businesses in emerging economies interact with and influence national institutions. Yin (2003) argues that research involving "why" and "how" questions often call for case study methods. Accordingly to address our research questions we chose to focus on a single case. As our focus on emerging market family groups is relatively new within the field of coevolution studies, we took an exploratory approach with the aim of revealing coevolutionary patterns

between firm and institutions. Maintaining a focus on a single large company allowed us to study the dynamics of corporate strategy and institutional pressures in great depth and richness. Mutual influences between a company and institutions are often enacted in subtle and multi-faceted processes of personal interaction between business leaders and officials. Some of these processes may be legitimate whereas others are of a more illicit nature. Well-connected emerging market players may be reluctant to disclose their leverage on institutions, and unravelling dynamics of company-government interaction requires in-depth and careful research covering a long period. We therefore chose to study company-environment interactions within a single firm rather than across a sample of firms.

Few studies are able to demonstrate a direct impact of a single firm on the institutional environment. Rodrigues and Child (2003), for example, adopt a methodology in which they look separately at the coevolution of the individual firm and its industrial sector (the "micro" and the "meso" levels) and the coevolution of the industrial sector with the broader institutional context (the "meso" and "macro" levels). We therefore looked for a firm that was in a position of power and connectedness for a substantial period of time, so as to increase the likelihood of detecting reciprocal influences between a firm and the government. In designing our coevolution study we followed accepted procedures for case research (e.g. Yin, 2003), which are further detailed below.

Case Selection. Our study focuses on a single case in order to observe in detail how the interaction between company and institutions may play out over a long period. While statistical research often uses sampling principles to select target companies that are representative of a larger population, single case research tends to use *theoretical* sampling principles (Yin, 2003). Rather than being representative for a large population, our case was chosen because the phenomenon of interest was "transparently observable" (Eisenhardt, 1989). Our selected company, the Salim Group, offered us a rare opportunity to directly observe interactions between the micro and the macro levels, because the Salim Group individually played a major role in Indonesia's development: economically, politically and symbolically. The fact that it was in a unique position of economic power and political connectedness is precisely what made it an interesting company our research.

Sources. Our research uses a rich longitudinal, exploratory case study of a corporate group within its institutional context, covering a period from its inception in 1938 to 2005. We carried out the research from 2003-2005 using a variety of sources, including 56 interviews, a review of 69 annual reports of 8 Salim companies (covering up to 10 years when available), media sources (6349 articles) covering 20 years, secondary literature and other forms of corporate documentation. We consciously maintained overlap between data collection and analysis to strengthen emerging themes (Glaser and Strauss, 1967) and achieve triangulation (Yin, 2003). Data gathering and analysis was done in an iterative manner, so as to enable the collection of missing data and strengthening existing ideas and constructs.

The Salim Group is often considered to be a secretive group. Despite this, we were able to obtain 56 interviews with insiders and outsiders (See Table I). Aside from the interviews with the Salim Group leadership, we consciously interviewed partners and competitors, as well as politicians known for their criticism of the Salim Group. Generally speaking, respondents had very strong views on the Salim Group's strategy, ranging from "a very competent firm" to "an inept corrupt crony". We made a careful selection of a variety of interview partners to mitigate biases.

An introduction is vital when one wants to interview a member of the Indonesian elite, and some interviews were only possible because of serendipity or through following a chain of connections and introductions. We particularly benefited from access to documents and interviews with people at an Indonesian institution called Indonesian Bank Restructuring Agency (IBRA). IBRA was tasked with restructuring ailing banks after the Asian Economic Crisis. As payment for capital injections in their banks, conglomerates such as the Salim Group handed over firms and other assets to this institution. IBRA subsequently sold these assets in open tenders, making detailed information on former Salim Group companies available to the public.

Insert table I about here

We conducted the interviews in a semi-structured fashion, usually in English. Directly after the interview a summary was made, which not only contained a write up of the interview, but also occasionally added information derived from participant observation. These included qualifications such as "respondent appears very reluctant to talk about this topic". Due to the sensitivity of the topic in Indonesia, and following the requests of most respondents, we made all quotes except those of the CEO anonymous. This means that we are sometimes required to leave out details that could lead to the identification of the respondent. The interviews with CEO Anthony Salim were considered vital for understanding the strategy of the Salim Group and were therefore recorded, with his consent, and subsequently transcribed.

We also gathered annual reports of the most relevant Salim Group companies, both in Indonesia and abroad. The Jakarta stock exchange witnessed an impressive growth from 1989 onward. Indocement, a Salim company, was listed in this year. However, it wasn't until the 1990s that several other Salim companies were listed as public entities. Our annual reports covered 10 years (from 1994-2003), or less when the company was listed later. One Salim entity, BCA, one of the largest Indonesian banks, was not listed but still obliged to publish annual reports, which we also obtained. The company was not able to provide us with annual reports for the particularly critical crisis years of 1997-1998, but other than that the annual reports were complete (see Table II). We also used other corporate reports, in particular documentation from the Indonesian government entity created after the Asian Economic Crisis that dealt with ailing banks, and received from the Salim Group assets, shares, and companies as a payment for fines and debts incurred in the crisis.

Insert table II about here

A structured media analysis yielded over six thousand articles in magazines and newspapers containing news on the Salim Group, covering a period of 20 years. We used the names of listed and non-listed companies (our list contained over 300 non-listed companies, past and present) as well as the key

shareholder as our search criteria. Results came from well-known publications (such as the Financial Times) but also from specialised media (Chemicals Newsbase, for example), using English as the language (see Table III). We also used the DNB database to track unlisted companies, for example whether they were run in cooperation with government connections. We made use of library staff at the Jakarta-based CSIS, who compiled news clippings on the Salim Group from local sources, partly in Bahasa Indonesia.

Insert table III about here

We also used secondary sources to map the development of the institutional context, in particular regular World Bank reports and the quarterly updates provided in the Bulletin of Indonesian Economic Studies (reviewed from 1965 onward). We used Asian Development Bank indicators to track the macro-economic data of Indonesia. In addition, some of the experts interviewed provided additional interpretations of the emerging institutional context and how it affected the Salim Group, and also how the Salim Group attempted to influence this context. One example was our interview with a former cabinet member who narrated how the Salim Group had tried to influence the Indonesian government.

Given the sensitivity of our research topic within the Indonesian context, data limitations were present. An example of this was censorship of the press under Suharto’s leadership, when writing on Suharto’s business connections with the Salim family was impossible. Another limitation was that many respondents were only willing to speak “off the record”, which made it necessary to carefully maintain the anonymity of respondents, and also to interview respondents more than once to build trust. Given these and other limitations, it was considered important to collect data from multiple sources, to allow a comparison across sources. We have more primary information on the recent history, but we had to rely more on secondary data for earlier periods. An overview of the advantages and disadvantages of various sources used in this study is available in Table IV.

Insert table IV about here

Analysis. The case analysis combined both qualitative and quantitative methods. As is normal in this type of research, we identified a number of themes that emerged from our data (Yin, 2003). One of the more salient aspects of our results was an apparent dichotomy in the views on the Salim Group expressed by our respondents and in the media. On the one hand, there was the view that the Salims were corrupt rent-seekers, who exploited the Indonesian government for personal wealth accumulation. Other people argued that the Salim Group was the best and most professional firm operating in Indonesia. We came to realise that this dichotomy rested on different assumptions regarding the level of agency of a firm, namely whether the Salim Group could be blamed for Indonesia's crony economy, or whether the family business was simply a well-functioning product of a corrupt regime. We subsequently became more interested in the close interconnection between firm strategy and environment and focused more closely on this theme in our subsequent rounds of data gathering. Benefiting from a more trusting relation with some of our early respondents, we sought to gain more details on the interactions between the Salim Group and Indonesian institutions, and we collected various stories that we felt are representative of such interactions in different stages of the Salim Group's development. We focused on those events in the Salim Group history that could be verified by more than one source.

Aside from the interpretative analysis and the financial analysis of annual reports, we used coding techniques to transform qualitative information on corporate strategy development over twenty years into quantitative information, with a time series approach (Boyatzis, 1998). We reviewed and combined our data from all sources to create a time-line of the Salim Group strategy, composed of "new business events", which included new investments, partnerships, or divestments. An example of part of the time-line is available in Table V. Each event was briefly described and the different sources were listed. In total, 277 events were entered into our database. As the years before 1984 often had only one event we decided to code our results from 1984 onward, until 2003, thus covering a 20-year period (n= 266). Business events were unevenly spread over time, in the period before the Asian Economic Crisis (1994-

1997) there was frantic business activity, whereas the immediate aftermath of the crisis was a period of few business deals, aside from some divestments. Our coding used the present/not present method (Boyatzis, 1998) and was tested by an independent researcher unfamiliar with the data. We achieved an interrater validity of 75% (scores over 70% are considered sufficient). The coding focused on the evolution of the network of partners, and tracked the frequency of partnerships with political actors, foreign and ethnic Chinese business partners. In this particular paper, we are most interested in the interaction between company and institutions, as captured partially in the Salim Group's political connections, in particular those in Indonesia. The coding procedure revealed long-term strategic trends which could then be studied more carefully by going back to discrete strategic events, and comparing the trends in corporate strategy with the evolution of Indonesian institutions.

Insert table V about here

Communication. Most qualitative research relies on interpretative techniques (in our case complemented with quantitative analysis). In order to communicate the results of such studies, experts argue that one needs to balance "telling" (providing raw data) and "showing" (explaining your data) in order to convince readers (Golden-Biddle and Locke, 1997; Pratt, 2007). Other academic disciplines using qualitative research have long traditions in conveying data and interpretations, such as "thick description" (Geertz, 1973), or using literary procedures (Clifford & Marcus, 1986). While we do not think our research should resemble a novel, we do recognize the value of "telling a persuasive story" rather than simply providing a summary of all raw data. We tell the story of the Salim Group in the next section emphasizing the patterns we think are relevant, showing company-institution interactions on personal, corporate and institutional levels. Occasionally, we refer to our underlying data sources, or provide quotes to illustrate the story. The Salim story as we tell it is a product of analysis, not a direct representation of all data collected. In the case narrative, we do not make references to theory or abstract conceptual constructs, in order to establish a degree of independence between data and theory. It is only after telling the story that we bring back concepts and theories to interpret it.

The Salim Group

Genesis. In 1938 Liem Sioe Liong, a poor Chinese migrant, arrived in Indonesia, where he engaged in small-scale trade with the help of family members and kinsmen from China (Soetriyono, 1989). The Chinese diaspora maintained trade links across the Indonesian islands, generally having built better business skills than the indigenous population. At that time, the Dutch colonial economy was oriented towards export of commodities, and satisfying domestic needs was left in large part to Chinese entrepreneurs.

Liem was intelligent, hard-working and not in a position to say no to any opportunity to earn an income. He turned his opportunism into a business strategy, captured in the motto "all business is good", according to an interview with his son Anthony Salim. Initially he involved himself mostly with trading (Soetriyono, 1989), probably using his bicycle to transport goods from one town to another (Twang, 1998). The Japanese occupiers during World War II restricted inter-city trade, and Liem is thought to have taken opportunity from this by engaging in smuggling, a dangerous occupation. After independence, Liem started some small scale industrial activities, such as a soap factory. He clearly had little interest in export-oriented businesses, focusing instead on ways of satisfying domestic demand. This strategic preference is present in the Group to this day.

The period after independence saw the rise of two institutions: the army and the communist party. The army became a strong force in society and in business (Crouch, 1978). Sukarno, Indonesia's first strong leader, was not interested in developing a private sector. The business context for private firms was difficult and the state of the economy deplorable. The Chinese minority was discriminated but nevertheless thrived in business, since it provided networks and capabilities that the "official" economy could not supply (Granovetter, 1992). Liem established a fortuitous supplier relationship with a local garrison, where he was assured of a good income and protected from political upheaval by partnering with a relative of Sukarno. That is when he met Suharto, then an army officer, who was to become the

strongman of Indonesia for more than 30 years (Elson, 2001). A former cabinet member under Suharto's regime, interviewed for this study, explained:

> "Indonesia has a history of links with power holders and Chinese business, and Liem was one of the examples. All those division commanders like Suharto did the same. The Indonesian army was never self-sufficient in terms of budget. They got only 30% or so of their budget from the state, the rest of the funding they had to look for themselves. Even until now".

Spreading the Wings. The transition from Sukarno to Suharto made the army the dominant institution, and Suharto realised that achieving strong economic growth was the key to consolidating and holding onto his power. He implemented pro-capitalist policies, authorizing large-scale private ventures and foreign trade, although he regulated these and kept key industries in government hands. During his 32 years in power Indonesia achieved the spectacular average of 7% growth *per annum*, transforming the country into an emerging industrial power. Like in many other developing countries, the economic policy was based on import substitution. Inexpensive loans, exclusive import licenses, protection from foreign competition, monopolistic concessions, tax breaks and other inducements were routinely offered to entrepreneurs to have them set-up domestic production of hitherto imported products. An entrepreneur with political connections and the capability to set-up and run a business was in a position to reap great benefits.

While Suharto was undoubtedly committed to the development of Indonesia (as marked in our interviews with two of Suharto's early economic advisors), he has never clearly distinguished between political, private and business activities (Elson 2001). More subtly, the Suharto regime pursued three important objectives: (a) the nationalistic goal of creating a viable post-colonial economy capable of growth and modernisation; (b) the political goal of stability, understood as maintaining *ad infinitum* in power the ruling elite; and (c) personal enrichment of the elite. The first goal was the primary source of legitimacy, and its successful pursuit is undoubtedly the major reason why the regime stayed in power

for so long. To achieve it in conjunction with the second goal, it was useful that industry be controlled by persecuted and disliked ethnic minorities that stood no chance of forming an alternative autonomous political force, hence the advantage of the ethnic Chinese (Suryadinata, 2004). As one of our interview respondents phrased it:

> "Suharto used the Chinese for the money but made sure they were dependent and had to pay protection money. He did this because he wanted to separate political and economic power. He controlled both".

To achieve growth and modernisation in tandem with personal enrichment, it was essential that crony businessmen *be competent*, legitimating preferences granted to them as "choice of the best".

Suharto initially worked with a number of ethnic Chinese businesses to implement his crony system to build up the economy. Most of those Chinese family businesses had difficulties in developing their managerial and technical competencies very far, but the Salim Group was a notable exception and it benefited by becoming the "crony of choice" for the regime. Business partners who knew Liem at the time spoke highly during our interviews of his business acumen and his ability to chose the right partners. One of our respondents said about Liem's choice of partners:

> "Gut feeling, he was very good at that. For example Sudwikatmono [a long term partner of Liem] was a brilliant choice, he is a *pribumi* [indigenous Indonesian], a cousin of Suharto and really a man who knows his limits".

Often in partnership with army foundations linked to Suharto (Robison, 1986), the business group started to grow at a very rapid pace, and to diversify into producing all kinds of basic products from food to automotives to cement, while continuing lucrative trading activities. Suharto referred to the quasi-monopolies of Salim companies Indocement (cement) and Bogasari (flour milling) – both in connection with his cousin Sudwikatmono, as part of the larger goal to develop Indonesia:

> "The development of these two [Salim] companies is not a collusion between me and Oom Liem, but the government's effort to reach self-sufficiency by utilising a businessman who is willing to work." (Australian Financial Review, 1995).

In 1971 Liem's son Anthony Salim graduated from Ewell County Technical College in London and returned to Indonesia. He was to take over the group two decades later. Interviews suggest that with an ever expanding empire the young heir foresaw two challenges. Firstly, the need to make the existing businesses more streamlined and professional so that the group could effectively grow and still be controlled by scarce family management resources; secondly the need to distance the Salim Group from a highly profitable but equally risky dependency on a benevolent patron who certainly was not going to stay in power forever. In Anthony Salim's words:

> "From 1979 we started to sort of elevate ourselves from government to market based enterprise. [..] we try to choose that it is much more on business directions rather than government related business -which is still good!. Another characteristic is that of course we start to balance our portfolio. We have no pretension to hide that we have started to invest outside Indonesia since 1975".

The Salim Group used some profits from domestic activities to invest in countries outside Indonesia, such as China, Hong Kong and the Philippines. A study of annual reports and other sources reveals a variety of non-Indonesian businesses, such as one of the largest telecommunication firms in the Philippines, industrial parks in China, a bread company in Singapore, a listed trading company in The Netherlands, and property companies. Some of these were listed on local stock exchanges.

Eventually about a third of the conglomerate activities were outside Indonesia two decades later (Salim Group Brochure, 1996), but this did not change its fundamental embedding in the domestic context. On the contrary, the Salim Group grew to be the most dominant domestic player with (semi)monopolistic positions in a range of industries. The Salim Group was continuously faced with business proposals

from local and foreign players that saw benefits in the Group's connections, such as one Western partner of the Group, interviewed for this study:

> "The Salim Group was known for its good government connections, which is important in our industry. They did not have experience in our industry, but nobody in Indonesia had at the time, so that was not one of the criteria".

By aligning with the Salims, this Western multinational obtained a semi-monopoly in Indonesia.

Perhaps because of the continuing influence of the old Liem, or the profitability of the crony alliance with Suharto, the independent and professional strategy as envisioned by the young heir did not take off. Crony business continued as usual, but now the Salim Group was large enough to advise Suharto on industrial policies and shape their future rather than simply act upon opportunities. Liem prospered and built the largest business group in Southeast Asia (Sato, 1993).

Suharto and Liem developed a close personal relationship, and, according to an insider interviewed for this study, had a regular weekly meeting. The Salim Group became an implementer and shaper of Indonesian economic policy. It was able to bend the rules in its favour, or in the favour of friends as the following interview excerpt shows.

> "Then [a local businessman] conceived this large project. The local government did not want the project because of damage to the environment. Several cabinet members were also against it. Despite this, [the businessman] pushed the project by putting the Salims forward. It then got approved by Suharto himself. The Salim family personally asked Suharto".

The Salim Group benefited from early information about impending initiatives and several legislative and judicial decisions were tailor-made to benefit it. Many of the key Salim Group activities were in sectors enjoying high protection, for example in wheat, cement and automotives. An example of the

mutual give and take between the government and Liem Sioe Liong was the creation of an Indonesian steel industry in the 1980s. The idea came from the government and Liem was "encouraged" to put up 40% of the costs of the steel plant (Soetriyono, 1989; The Economist, 1990). To help the Salims finance their part of the deal, the government gave them an import monopoly for steel in the years preceding the coming on stream of domestic production, and allowed for a significant increase in prices. Liem and his son said in a rare interview that they considered the steel project a "special task" from the government to develop Indonesia, rather than the most rational investment choice (Tempo, 1984). When the steel industry was losing money in the early 1990s, the government bailed out the Salim Group.

Liem also played a role of advisor and protector to Suharto's children and to his foundations, which at times required costly rescue interventions, in one case bailing out a bank, partly owned by a Suharto-linked foundation, for USD 200 million (Asian Wall Street Journal, 1994). By the mid-1990s Suharto's children built substantial business groups and enjoyed certain privileges, although never quite reaching the scale of the Salim Group. The Salim Group had direct business links with Suharto and his children, but annual reports and other corporate data suggest those were relatively small, and one wonders if they were the result of genuine business opportunities or rather obligations that could not be ignored.

In the early 1990s the reign of the business was slowly transferred to Anthony Salim who restructured it into divisions, increasingly hired professional managers and tried to steer away from the crony model. His vision was to:

> "institutionalize our business. Market based put into our consideration. [We did] three things: 1. distance ourselves from government contracts, at that time a fruitful business – last 20 years no government contracts; 2. having market orientation for our business direction; 3. we always do business based on the regulations, prevailing law".

Controlling several Indonesian sectors, the Salim Group was now less dependent on government opportunities, but the country became dependent on the Group for products and jobs. In the words of Liem:

> "Today, our companies are intimately involved in the day-to-day lives of literally millions of Indonesian families. We produce many of the foods they enjoy most. We manufacture vehicles in which they travel and provide a choice of value-added financial services. We develop properties in which they work and live, and even cater to their wide range of entertainment and recreational preferences" (Salim Group Brochure, 1996).

The Salim Group enjoyed a virtual monopoly on production and distribution of noodles – a staple food in Indonesia – as well as on its key ingredient flour. Thus a disruption to Salim operations could easily translate into a human calamity.

The Group had developed the resource base necessary to manage a large diversified international corporation. International investments, particularly those in China, were kept at low profile since they were seen as "capital flight" by Indonesians. Within Indonesia, the Group continued its rapid growth while still honouring obligations to Suharto in the form of partnerships or occasional problem-solving. Suharto dictated even relatively minor policies or exceptions to policies (Schwartz, 2004). In some cases existing regulations were amended when they hindered the Salim Group's development, for example when the group wanted to list a cement company on the stock exchange despite not meeting the criteria, or when it wished to expand its noodle production capacity in 1995 despite regulations forbidding the expansion of companies holding a large domestic market share.

The Crisis. In the time up to the Asian Economic Crisis, crony capitalism reached a peak in Indonesia with protection and special favours very much in the open. This invited criticism from the IMF and the World Bank, which promoted a liberal free-trade model with low protection for local industries and players. When the Asian Economic Crisis hit, Indonesia Suharto was forced by the IMF to curb the protectionist policies favouring friends and family-members, including closing banks belonging to his children. The Salim Group was instrumental in controlling the damage for the Suharto family by taking over two banks owned by Suharto's children. Newspapers reported how the Salims provided Suharto's

son Bambang with a new bank after his bank was closed. Anthony Salim was part of the team negotiating with the IMF and discussing the resolution of the crisis.

By the time the crisis fully developed Suharto resigned amidst riots. The Salim Group became the target for public anger. Rioters had sprayed "Suharto's dog" on the gate of the Salim family house and later set it on fire (Landler, 1999). Several branches of the Salim-owned Bank Central Asia (BCA) were also set on fire. BCA, the largest privately owned bank in Indonesia, had two of Suharto's children on its supervisory board (and as co-shareholders, according to the annual reports), and was subsequently a victim of a bank-run that depleted its resources. The fall of BCA marked a new period for the Salim Group. A new government, espousing anti-corruption policies, recapitalised the bank, demanding from the Salim family full repayment as well as a fine for the violation of certain banking laws. The total amounted to approximately USD 5 billion.

Liem never returned from exile in Singapore and let his son Anthony deal with the crisis in Indonesia. Thus, as a by-product of Indonesia's change of regime, the leadership of the Salim Group was centralised in the person of Anthony Salim, who had to save the group from a complete collapse. The son never abandoned Suharto and said:

> "We were and are still close friends with Pak [Su]Harto. Even today we are Suharto fans, we have not denied this".

Many Indonesian businesses were insolvent, and the new government had to find ways to restore the entire financial sector and the economy. It created an entity to deal with ailing private banks, of which BCA was the largest. At least one new minister, interviewed for this study, was in favour of dissolving the Salim Group altogether, while others recognised its vital role for the economy. Some leaders of large conglomerates were arrested, but this never happened to Anthony Salim, who opted for a strategy of cooperative negotiations, according to government officials dealing with him at the time, and interviewed for this study.

The Salim Group still was able to partly influence matters in Indonesia during the late 1990s. According to one director of the debt restructuring agency (interviewed for this study) the Salims arranged to repay their government debt in assets which were valued at 70% higher than the government actually obtained for them in a later sale. The Salim family settled the debt by ridding the portfolio of some of its least desirable components while holding on to some of the cash cow monopolies. A cabinet member interviewed for this study said:

> "The conglomerates are not fair, they have taken advantage of the Indonesian government. Most conglomerates violated the law when they were lending to other companies in the same group. Not much has been done against these activities, which are criminal offenses. Perhaps because of corruption? Now most banks are in government hands, and some are declared bankrupt. However, it turned out that the former owners had already robbed their banks prior to this. Only about 5 people paid back their debts by transferring assets. Take for example the Salim Group. They transferred companies worth 53 trillion Rupiah. But when these assets are audited again the value is only 20 trillion, so we are talking about theft here. But the Salim Group was one of the most cooperative groups. Others were far worse. Now these Salim assets are with the government. What solution they took was also vague. The loss for the government is huge. If we had a choice it would be better not to have this type of conglomerate any more".

Of all the conglomerates that had to repay the government, the Salim Group set the "best practice" in the eyes of the government and business community. A banker interviewed for this study phrased it as follows, and similar remarks were made by other respondents:

> "Salim is much better than the others in terms of quality of assets surrendered, speed of cooperation etc. Unlike the others, they only play in the grey areas, like asset valuation, not in the written, clear agreements. Other conglomerates used blatant manipulation".

While conglomerates were accused of using the system, the new government was accused of irregularities, effectively showing that the widespread of corruption across the country, was unlikely to be followed by a clean and effective democratic government any time soon. Within the post-Suharto system, most respondents in our study claimed that the Salims were "the best in class" and set the standards for a less blatant kind of corrupt system.

Even after the settlement of the USD 5 billion government debt, the group still was a large business player. The power of the Salims and a few other big businessmen continued to be such that one of the new president Wahid's first actions in 1999 was to go to Singapore to encourage frightened Indonesian-Chinese businessmen in exile, including Liem Sioe Liong, to bring their capital back. Liem made a public promise to comply.

The Come-back. The crisis caused considerable damage to those companies most closely connected to Suharto. His children, who had built up considerable business groups, disappeared from the business scene and quietly left their positions on corporate boards. Another Suharto crony, Bob Hasan, who had crossed the line from private sector to politician by becoming a minister in Suharto's cabinet, was convicted of corruption and sent to jail. Suharto's youngest son also faced a jail term. The Salim Group managed to stay clear of corruption charges, and it began to build its new strategy on its business capabilities.

The crisis had forced, and at the same time cleared away the obstacles for, a new corporate strategy. Interviews with Anthony Salim, as well as annual reports, show how the group started to shift the balance of its portfolio away from Indonesia by concentrating on investments in Australia, China, and other Asian countries. The group never abandoned the Suharto clan, but our coding of business events revealed almost no new business deals with political partners in Indonesia. An interview respondent commented that the Salims were now using their connections differently:

> "[Anthony] Salim has good connections, but just for protection if he is attacked. He does not use these connections for personal gain".

After the crisis, the Salim Group saw its profit margins come under pressure as protective arrangements were abolished and domestic competition increased, but it restored most of its remaining companies to profitability. Despite expectations that Indonesia would turn into a democratic free market economy, the institutional environment continued to exhibit many elements of crony capitalism, albeit with new players (Robison and Hadiz, 2004). The Salim Group was no longer the largest Indonesian business group, and with its patron gone, never quite achieved the same effect on its environment, even though it was a party not to be ignored. Nevertheless, the heart of the group remains – for the time being – in Indonesia, and it continues to be affected by the domestic environment.

Discussion

The story of the Salim Group clearly shows the influence of institutions and broader contextual factors on corporate strategy, as we have summarized in the patterns of coevolution we delineate in Table VI. The Group responded and adapted to the turbulent history of Indonesia. At its inception, it adopted the ways of the Chinese diaspora, including specific value systems, and turned into opportunities the disadvantage of being identified with an oppressed and disliked minority. Liem established connections with the up and coming Indonesian leadership, in part due to luck, but mostly due to an acute awareness of the institutional context. As the Indonesian regime evolved from an economically inept post-colonial nationalistic socialism, to an authoritarian growth-oriented capitalism, the Group responded and became the largest player in its field. By aligning with the Suharto regime, Liem was involved in carrying out its policies, such as that of import substitution industrialisation, which influenced the Group's business model. The case provides support for the institutional view point.

Insert table VI about here

But in later stages of its corporate development, we also observe the reverse: the Salim Group influenced Indonesian institutions. Several studies suggest that in a more regulated environment a company is more restricted in its strategic choices than in a market based environment with many competing players (Oliver, 1991). In Indonesia, despite a highly regulated environment with substantial government intervention, we observe that the inclusion in the inner circles of the Suharto regime opened up strategic possibilities for the Salim Group that would have been extremely unlikely under conditions of market-based competition. The unique access to credit and the protection of its businesses by regulatory means allowed the Salim Group to become an industrial and international player and to build up a strong management.

In an emerging market with high government intervention, companies are often dependent on officials, and developing political connections, or even "internalizing" politicians, or their families, in the business as a way to increase access to, and control over, essential external resources. The reciprocity between political and business actors shaped the early strategy of the Salim Group. But the intense interaction between Suharto and Liem went beyond simply extending mutual favours. Indeed, the arrangement also partially shaped the Indonesian economic landscape. This study supports the arguments of Rodrigues and Child (2003) in that a company can increase its level of choice by immersing itself in political networks. A major economic player like the Salim Group can exercise a very high level of strategic choice, even to the extent that it can cause advantageous changes to institutions such as laws and exclusive licenses, as demonstrated in the example of the steel industry.

The level of strategic choice available to the group was not only linked to political networks, but was simultaneously influenced by internal dynamics, especially the lengthy process of generational leadership change. The founder, a self-made man, provided his heir with a modern and international education. Liem had a very clear strategic vision, understanding that his distinctive competence was the ability to establish the right connections and exploit opportunities stemming from them. Yet, he also understood that technical and managerial competence were important, and gave his son the free reign

to build up these capabilities. For two decades the firm managed to simultaneously build up the crony business model and pursue the son's strategic vision of a modern, more international, better structured and more professional company (Dieleman and Sachs, 2006). With the disappearance of the world of cronyism for which he built the company, the founder stepped back and the son was able to exploit the crisis to restructure the business and make it more adapted to emerging conditions. The case shows that not only crony relations benefited the Salim Group, but that the Group also saw the need for developing professional competencies. This point supports the conclusions of earlier work which argued that cronyism is beneficial but not sufficient for generating superior organizational performance (Peng and Luo, 2000).

The central question that interests us, suggested by the metaphor of coevolution, is the extent to which the company was an institutional entrepreneur, able to influence its context. It is clear that in the early stage, such an influence was negligible. However, at later stages the influence was major and took on multiple forms. It is unlikely that Suharto came to power with a clear idea of how to organize and run the crony economy, for which he became famous. Rather, this "crony paradigm" - one researcher termed it "Suharto's franchise system" (McLeod, 2005) - emerged by extrapolating and refining corrupt practices that were present before. It is clear that Liem assisted Suharto in developing the model and that Suharto responded to Liem's suggestions. Liem and his collaborators became close economic advisors to Suharto and his government. They convinced Suharto to change regulations to their benefit. The Salim Group was also used by other firms to bend the ear of the dictator. The effect was that the company was identified by the Indonesian and international public as being an integral part of the crony system. It suffered from mob violence and ethnic discrimination. But it also played an important role in creating the "new crony system" that is coming to life in post-crisis Indonesia, as it set the standards for local "best practices" in dealing with the Asian Economic Crisis.

If one analyses the crony relationship between Suharto and the Salim family on an interpersonal level, the following observations are relevant. First, the crony relationship was unequal, since Suharto had political power, while Liem belonged to a vulnerable minority. The relationship, which lasted for decades, closely connected the two players in the eyes of the public. The institutional context in

Indonesia for a period of three decades was dominated by a dictator who personally influenced domestic policies. In addition this was an economy with one dominant domestic business player, which had its hands in many industries, often in monopolistic positions. The company and institutions were centralised and represented by two strong personalities (Liem and Suharto), who developed a close and long-term relationship, as witnessed by their frequent meetings and the favourable policies that were implemented to stimulate the Salim Group profits. The consequence of the alignment was that people started to perceive the Salim Group as part of the Suharto regime. In the words of Schwartz (2004, p. 112): "Liem's empire straddles the line between private enterprise and government like no other Indonesian organisation". Other observers considered the Salim Group part of "Suharto Inc". Liem was both an institutional entrepreneur and an entrepreneurial institution in Indonesia. Our study of a crony regime and a large domestic player suggests the possibility of large corporate entities morphing into institutions.

Second, it appears that the main motivation for cronyism on the part of Liem stemmed perhaps initially from self-interest, but as the relationship with Suharto developed, Liem was also geared towards loyalty and maintaining a good relationship. This can, for example, be seen in the Salim's refusal to distance the Group from Suharto after Suharto lost his position, even if that could have been beneficial for the business interests of the Salim family. Suharto's initial motivation for favouring Liem may have been more instrumental: he realised the value of Liem's business instinct and utilised it for the benefit of Indonesian economic development. On the other hand, Suharto's family also benefited personally, as demonstrated by the wealth his children acquired through the cronies. There was no clear distinction between Suharto's political, economic and private business goals. The personal alignment between Suharto and Liem played a role on many levels: economic, personal and business. It was characterised by a complex mutual understanding of give and take. This alignment was limited by the potential for strong criticism, and Suharto curbed this by censorship and presented it as beneficial to the development of Indonesia. The Salim Group being "an instrument" for national development was an argument that sounded convincing.

Conclusion

We have brought together several important streams of the literature: institutional and strategic choice theories, as well as cronyism, to integrate them in a coevolutionary framework. Our study focused on a single case, and it covered multiple levels of analysis, combining interpersonal, corporate and institutional perspectives. Coevolutionary theory assumes that organizations can be seen as sub-systems within a complex business ecosystem, and has so far focused mainly on organizations influencing each other or on organizations collectively influencing their environment. We have extended the coevolution framework and provided evidence to support our argument that it is feasible for a single corporation and national institutions to display significant patterns of mutual influence. We generate this evidence using a case study situated in an emerging market. We find that classical institutional theory tracing corporate strategy to contextual factors provides a good explanatory framework when a firm is relatively small and insignificant. When a firm is more powerful, one must also look at managerial intentionality and at reciprocal influences between a firm and the institutions in which it is embedded.

Under which conditions can a family business exercise influence over domestic institutions? Our case suggests that a combination of variables plays a role. On the personal level, immersion in political networks and the inclusion of politicians in the business increases the level of strategic choice. The Salim Group not only increased its own degrees of freedom through capital, licenses, protection, and information from the government, it also extended its influence to shaping national institutions across industries. On a corporate level, the Salim Group simultaneously built up professional business capabilities, growing into a firm that enjoyed considerable market power in a range of vital industries such as food, cement, chemicals and banking. These business competencies allowed Suharto to legitimize his relationship with Salim as "the best possible choice to develop the nation". On an institutional level, the company was able to influence the rules of the game since it operated in a highly centralized and corrupt political system that lasted for 32 years. While these are idiosyncratic variables, our study contributes to coevolution theory by illustrating the need to combine insights from different levels of analysis to explain the patterns of co-evolution between firm and institutions.

Most coevolution studies assume that increased levels of strategic choice provide strategic benefits, since firms enjoy more power to shape the future. Child and Tsai (2005), for instance, show how foreign MNCs in developing countries helped raise environment standards, placing them at an advantage compared to local competition and new entrants in the chemical industry. Our study, however, also points at the risks of adopting a position as a shaper of national institutions. The Salim Group was embedded in the Suharto regime, and through its connections was able to modify its external environment to fit its own needs. Accumulated reciprocal transactions with Suharto and his family increasingly tied the group to the Suharto regime in the eyes of the public, and the Salim Group consequently suffered after the Suharto regime unravelled. Conditions of relative stability punctuated by fundamental institutional transitions are not uncommon in emerging economies. Companies linked to a regime through dense personal political networks may enjoy short-term increases in freedom, which could be followed by a political backlash when a new regime takes over.

On a conceptual level, the Salim Group becoming a symbol of the crony Suharto regime shows the limits of the strict duality between "company" and "institution." Our coevolution study has demonstrated that companies may morph into institutions under conditions of embeddedness in a political regime. Our finding has important theoretical implications. Institutional theory has long treated institutions as exogenous, but its proponents are now considering the possibility that institutions are influenced by companies. We suggest that this may be taken a step further, namely by recognizing that institutions and companies are not necessarily mutually exclusive. Social scientists working on emerging economies have long recognized the embrace of executive government power and the private sector in many emerging economies, such as Korea (Chibber, 1999); Indonesia (Robison and Hadiz, 2004), Singapore (Hamilton-Hart, 2000) or China (Hsu, 2006), but have mainly focused on the development of the nation, not that of organizations. Future coevolutionary studies in emerging economies hold the promise of increasing our knowledge on this ambiguous area and supposed division between state and private sector, by incorporating in one framework both the institutional and the corporate side of the coin.

Single case studies are frequently praised for their ability to document new organizational patterns and build new or extended theories. However, single case studies do have their limitations. They tend to be narrow in scope, and cannot be used to generalize the results for a larger population. Accordingly, more empirical research is necessary to establish whether the mutual interactions between firm and institutions described in this study are unique, or whether our study points at processes that are common for large emerging market firms. Coevolution is a relatively young research field within management studies, and the metaphor of "species influencing each others' development" invites many exciting questions that hitherto remain unanswered, in particular in an emerging market setting. By using a single case study approach, we opened up a new line of inquiry within the field of coevolution, focusing directly on micro-macro interactions between firms and institutions. Our study was limited to a single family business in an emerging market. Within emerging economies, there are other important corporate players that may co-evolve individually or collectively with domestic institutions, for example state-controlled firms or multinationals. Future research programs should investigate further how organizations from emerging economies and their environments co-evolve, and how the organizational ecosystem differs from that in more developed settings.

In conclusion, we argued that individual large family firms in emerging markets can influence domestic institutions, and we provided support for our argument with an in-depth study of the interaction between the Salim Group and the Suharto government in Indonesia. Using a coevolution framework, which allowed us tease out mutual interactions between corporations and institutions, we described novel patterns of interaction. We used our findings to extend various theoretical frameworks. First, we contributed to coevolution theory by documenting the factors enabling the Salim Group to play a role in shaping their institutional environment. The factors that increased the Salim Group's level of strategic choice were on the personal, corporate and institutional levels, all of which were necessary to provide a complete picture. Second, we complemented theories on strategic choice by showing that, contrary to common belief, an increase in the level of strategic choice not only has positive implications, but may also have negative consequences, for example if more freedom is achieved by co-opting politicians who subsequently get replaced during a regime change. Third, we showed how the Salim Group increasingly evolved into an Indonesian institution because it was perceived to be part of Suharto's crony regime.

The morphing of a company into a national institution suggests that the strict distinction between corporation and institution may not always be tenable.

We end with deriving from our contributions suggestions for future research directions that can inform the theories in which this study is embedded: 1. A promising new direction in coevolution research is to investigate how individual firms coevolve in tandem with national institutions; 2. Our study has suggested that large firms in emerging economies display different patterns of agency as compared to firms in more developed economic settings. The literature on strategic choice can be extended by investigating the factors contributing to higher or lower levels of strategic choice in an emerging economies context; 3. Based on our finding that companies and institutions may not always be mutually exclusive, we suggest that institutional theory can be extended by loosening the strict distinction between the concepts "firms" and "institutions", and by exploring how elements of the state and the private sector can morph into each other.

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Table I: Interviews

Category	Description	Respondents	Interviews
1	Salim Group managers (including the CEO)	8	16
2	Academic experts	6	7
3	Indonesian Bank Restructuring Agency Executives (who dealt Salim Group assets after the Asian Economic Crisis)	5	9
4	Former Cabinet Members	3	4
5	Financial Analysts	2	2
6	Local and Regional Journalists	3	4
7	Competitors (Managers of other Conglomerates)	5	5
8	Foreign Partners of the Salim Group	3	3
9	Others (including a Consultant to the Salim Group, a Government Advisor, a Non-Executive Board Member of the Group, a Supplier and a Representative of a Chinese Business Association in Indonesia)	5	6
Total		**40**	**56**

Table II: Annual Reports

Company	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Bank Central Asia	X	X	X			X	X	X	X	X
First Pacific	X	X	X	X	X	X	X	X	X	X
Indocement	X	X	X	X	X	X	X	X	X	X
Indofood	X	X	X	X	X	X	X	X	X	X
Indomobil*				X	X	X	X	X	X	X
Indosiar*							X	X	X	X
QAF	X	X	X	X	X	X	X	X	X	X
Unggul Indah Cahaya	X	X	X	X	X	X	X	X	X	X

* Annual Reports were available from the years a company was listed on the stock exchange.

Table III: News Articles

LexisNexis Search Terms	Articles Retrieved
Liem Sioe Liong	404
BCA	774
Daria Varia	44
First Pacific	177
Indocement	284
Indofood	950
Indomobil	214
Indomulti	191
Indosiar	195
QAF	318
Unggul Indah	1038
Names of Unlisted Firms	1760
Total	**6349**

Table IV: Overview of Sources

Sources	Advantages	Limitations
Annual reports & corporate documentation	Comprehensive corporate information Financial data	Limited to legal obligations for disclosure Limited to public companies
Media sources	Information from wide range of sources, including specialized media	Focus on 'news value' Sources remain unknown Possible limits to free press
Interviews	In-depth information comparing divergent views	Respondents want to speak 'off the record' Potential bias
Secondary sources	Different perspectives Prior analysis available	Comes with interpretation of authors

Table V: Sample of Business Events

Year	Business Event
1990	Salim starts Batam industrial park with 2 Singapore government partners
1990	Salim Group invests in clean-set cement with 3 Japanese partners
1990	Salim Group establishes Indofood
1990	Liem buys UIC Singapore (which in turn owns Singland)
1990	Salim Group partners with Nikko Securities (Japan) in Indonesia
1990	Salim Group invests in palm oil in Moscow
1990	Salim Group invests in styrene plant with Japanese partner and Bimantara
1990	Liem invests in the tourism industry & hotels in Vietnam
1991	Salim Group buys 50% of Albright & Wilson Australia
1991	Liem invests in Bintan with Singapore consortium
1991	Hagemeyer strengthens presence in US with JV and acquisition
1991	Salim Group invests in MSG plant with Korean partner & Bimantara
1991	First Pacific buys out Millicom in telecom JV in Hong Kong

Table VI: Coevolution of Indonesian Institutions and Salim Group

Period	External Environment	Institutions	Strategy	Internal Environment	Coevolutionary Patterns
Genesis 1938-1949	Dutch colonial times & Japanese occupation: primitive economy with exploitation of resources	Local trade, smuggling tolerated, ethnic Chinese networks replace economic institutions	Opportunism	Embedded in Chinese-ethnic business networks	Salim is a smallish and insignificant player, staying in the shadows and adapting as well as possible to conditions hostile to Chinese businesses
Opportunities & Connections 1950-1965	Socialist nationalistic government with anti-Chinese and anti-Capitalist overtones	The army emerges as the major economic institution			Salim adapts by supplying to local army units, without posing the threat of becoming a competitive political power
Spreading the Wings 1966-1997	Emerging economic model based on crony capitalism	Autocratic and corrupt regime with pro-growth & import substitution policies, occasional liberalization measures and set-backs to cronyism	Exploitation of opportunities, industrialization, acquisition of several monopolies, internationalization	Increased professionalism and rational management with very rapid growth, entry of new generation family members	Salim becomes an instrument of the regime's development policy, participates actively in setting national policy, at the same time tries to move away from dependence on Indonesian crony model
Crisis 1997-1999	The economy crashes and the regime changes to a democratic system	IMF imposes market-based institutions, abolishes protectionism and favoritism	Cooperate with the new regime and rationalize the portfolio	The second generation consolidates power	Salim participates in developing policies for economic reconstruction and becomes a model for dealing rationally with the crisis
Comeback 2000-2005	Old crony system adjusts to new political situation	Return of cronyism, with new players	Fight increased competition, build more modern and international conglomerate		Salim's independent strategy fits with more market based institutions