

The Rhythm of Strategy



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The Rhythm of Strategy

A Corporate Biography of the
Salim Group of Indonesia

Marleen Dieleman

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Preface

This book is based on a Ph.D. dissertation that was defended at Leiden University in The Netherlands in 2007. Compared to the original Ph.D. dissertation, I have attempted to rewrite several sections in order to make the book more accessible for non-academic readers as well as for academic specialists from different disciplines.

I am greatly indebted to my mentors, Prof. dr. Jacob de Smit and Prof. dr. Wladimir Sachs, who helped me in pursuing and completing this study. Without Drs. Utomo Josodirdjo I would not have been able to gain access to the Salim Group, and I would like to respectfully thank him for his help and thoughtful advice. Mr. Anthony Salim and several other Salim Group executives have spent their valuable time talking to me, for which I am very thankful. I also wish to thank all anonymous respondents that contributed to this book by sharing with me their valuable insights. All errors remain my responsibility.

Both Indonesian and Chinese names can be written in different ways, depending on the time frame or dialect. In this book I have chosen to use the most prevalent spelling within the context of this research, and mention other spelling methods if relevant.

Some of you, especially those familiar with ethnic Chinese business in Indonesia, may think this book is about corruption. It is not – and I gladly leave this topic to forensic experts and political economists. Instead, this book documents and analyses the strategy of a large family business in a complex and changing environment.

Marleen Dieleman, May 2007



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1 Introduction

1.1 Ethnic Chinese Family Business Groups in Southeast Asia

Despite the fact that ethnic Chinese make up only a very small minority of the populations of most Southeast Asian countries, they tend to contribute a disproportionately large share to economic activity in the region. This phenomenon can be observed in countries such as the Philippines, Thailand, Malaysia, and most prominently in Indonesia. Many of the large businesses in Southeast Asia are started and managed by families of Chinese descent. The majority of these family empires are organised in a cluster of separate companies, hence the term business group.

What is the difference between a family firm and a family business group? A commonly used definition for a family firm is: ‘a business governed and/or managed on a sustainable, potentially cross-generational, basis to shape and perhaps pursue the formal or implicit vision of the business held by members of the same family or a small number of families’.¹ Family control of businesses occurs around the world, but family businesses are extremely important in emerging markets, including Asia, where the largest of those family businesses are often organised in corporate groups.² Examples of family controlled groups are Samsung from Korea, the Tata Group from India, and the Salim Group from Indonesia. Many ethnic Chinese groups fit into this pattern and they can be characterised as a collection of economic interests rather than a single legal entity. Family business groups are therefore *collections of firms bound together in formal and/or informal ways, controlled and shaped on a long-term basis by a family or coalition of families.*

Given the importance of ethnic Chinese family business groups in Southeast Asia, the literature on this phenomenon has seen a rapid development.³ Researchers have asked themselves whether and how ethnic Chinese family business groups are different from other firms in the region.⁴ What business strategies do they employ and why, and are those strategies more successful than those employed by indigenous or Western firms? This study contributes to this literature as it provides a

rich account of the development of one of the largest family business groups in Southeast Asia. Before turning to the case study of the Salim Group, I first provide the theoretical foundations for the study and describe the methodology applied. The research material on the Salim Group is presented in subsequent chapters. Non-academic readers may choose to skip this introductory chapter and proceed to chapter two.

The knowledge that has been developed on ethnic Chinese family business strategy is voluminous but remains highly fragmented. Many, often contradictory, explanations have been proposed for the behaviour of ethnic Chinese family business groups. Three different academic approaches are reviewed below: 1. Chinese family business; 2. migrant approaches; 3. the study of business groups in emerging markets.

1.2 The Chinese Family Business

The first set of theories assumes that there is a distinct and more or less stable form of management within ethnic Chinese family firms. This specific type of firm is termed the Chinese Family Business (CFB).

Family firm research explicitly recognises the special role of the controlling family, which often participates in the management of the firm.⁵ If the ownership, control and leadership are combined, it enables a very powerful leadership role for one or more family members. Contrary to managerial firms, where the manager is not the owner, family firms do not have to align the interests between managers and shareholders (agency problem) since these roles are combined in one family.⁶ The family leader, with his or her unique position of power, may profoundly influence the corporate strategy of the firm. In many Asian family firms, with a tradition of hierarchy and respect, family firm leaders are often patriarchs with strong control over all operations. This family leadership role gives continuity to the firm since the leadership changes perhaps only with the passing of the generations.

As is the case in all family businesses, ethnic Chinese family firms are strongly influenced by the internal dynamics within the family. Many ethnic Chinese firms are known to have fallen apart as a result of internal family conflicts, particularly with the arrival of a new generation.⁷ Those that have successfully managed the generational transition have done so by adopting new strategic ideas and new challenges.⁸ Given the strong role of the family in the firm, their values are argued to be essential for corporate strategy.⁹ There are numerous studies on the particular characteristics of *ethnic Chinese* family firms.¹⁰ This model is sometimes called the Chinese Family Business, or CFB¹¹ or more broadly 'Chinese Capitalism'.¹² The fact that it was called a *Chinese*

model already indicates that researchers tended to look for intrinsic qualities in Chinese businessmen.

What are these Chinese values that influence a firm's strategy? Extant research emphasises the influence of Confucian values, in particular the social norms for different types of relationships. Hofstede and Bond describe four key principles in Confucian societies: 1. the stability of society is based on unequal relationships between people; 2. the family is the prototype of all social organisations; 3. virtuous behaviour is treating others as you would like to be treated; 4. virtue with regard to one's task in life consists of trying to acquire skills and education, working hard, not spending more than necessary, being patient and persevering.¹³ It is argued that Confucian values play a central role for entrepreneurs of Chinese descent and guide them when doing business. Hence, it is believed that the Chinese have a preference for patriarchal family businesses with a frugal mentality. Businessmen of Chinese descent are argued to value trust in relationships with others. A typical list of 'Chinese' family business characteristics is available in table 1.1. Other authors have given similar accounts of what constitutes the Chinese Family Business.¹⁴

The '*Chinese culture*' argument has been very important in studies of ethnic Chinese business. As Ruth McVey¹⁵ puts it: 'The arguments explaining the Chinese' continued centrality to the region's economy, while they may take note of historical and economic factors, tend to find the principal reason in culture: roughly, that Southeast Asia's Chinese have a value system which elevates business success and promotes business-like behaviour, while the indigenous populations do not'. There is now increasing criticism of this 'cultural' model of

Table 1.1 *Characteristics of Chinese Family Business*

<i>Characteristics</i>	
1	Small scale; relatively simple organisational structuring.
2	Normally focused on one product or market.
3	Centralised decision-making, with heavy reliance on one dominant CEO.
4	Family ownership and control.
5	A paternalistic organisational climate.
6	Linked via strong personal networks to other key organisations such as suppliers, customers, sources of finance, etc.
7	Normally very cost conscious and financially efficient.
8	Relatively weak in terms of creating large-scale market recognition for own brands, especially internationally.
9	Subject to limitations of growth and organisational complexity due to a discouraging context for the employment of professional managers. (There are now some exceptions to this).
10	A high degree of strategic adaptability, due to a dominant decision maker.

Source: Redding (1995, p. 64)

Chinese family businesses. It would set the Chinese apart from the indigenous populations as these explanations quietly assume that the Chinese have superior business values. Moreover, by linking the Chinese family business to a more or less stable set of cultural characteristics, many authors tended to pay less attention to the rapid changes that have occurred within ethnic Chinese firms, especially within those family businesses that were successful and grew substantially.

Critics of the cultural perspective argue that it ignored important changes within ethnic Chinese firms, such as growth and diversification over a number of decades, thus increasing the complexities of running the family business and calling for new and more sophisticated management strategies.¹⁶ With increased size, these businesses moved away from the simple structures, hired professional non-family members as managers, implemented pyramid structures,¹⁷ and used the stock exchange to satisfy increasing capital requirements for expansion.¹⁸ Although some businesses sold majority stakes of their companies to the investing public, many ethnic Chinese families keep control over their groups through pyramid ownership structures that ensure majority control rights, although not always substantial rights to the economic fruits of the business.¹⁹ With expansion, which forced new management approaches and organisational structures, usually came internationalisation, which added another layer of complexity to the family business.²⁰ Furthermore, events such as the Asian Crisis, and trends such as the world-wide globalisation processes²¹ and the rise of the Chinese economy²² also exercise a strong influence on the strategy of ethnic Chinese family business.

Given these changes, is the cultural view on the traditional 'CFB' which characterises it as based on paternalism, family ownership, control, personal networks, adaptability and simple organisational structures, still valid? One of the questions this study seeks to answer is how many typically 'Chinese strategies' today's large ethnic Chinese family business groups have.

1.3 The Migrant Entrepreneur: Diaspora Advantages

A related body of literature starts from the specific situation of minority groups and argues that their success stems from developing excellent social capital. This concept is used to denote advantages from personal or business connections.²³ Some researchers emphasise closely-knit personal relations and networks among diaspora Chinese in Asia²⁴ and argue that these links may be the key ingredient of a successful business strategy. Close-knit groups may offer business advantages because deviant business behaviour carries penalties, thus ensur-

ing a higher level of trust and lower transaction costs among group members doing business with each other. In addition, migration is a selection process in which only the most risk-taking people engage – which then increases the prevalence of entrepreneurship among such groups.

The role of the Chinese in the economic development of Southeast Asia is seen by some as essentially similar to that of other well-off minorities such as Indians in the British Empire, Jews in Europe or Protestants in Catholic Europe.²⁵ Migrants often face difficult and hostile host contexts, and often deal with official or unofficial discrimination. In theories related to migration, 'being Chinese' is the equivalent of *not* being Indonesian, Filipino, Malaysian, etc.²⁶ Chinese migrants in Indonesia have since colonial times occupied important economic positions, for example, as intermediaries, and have continued to do so after the independence of Indonesia and throughout subsequent regime changes. The favourable economic position of the Chinese migrants (compared to the indigenous population) created tension among Indonesians, and it does until today, and is known as 'the Chinese problem'.²⁷ Several seminal works, by historians, economists and sociologists, have described the peculiar position of the Chinese minority in Indonesian business and raised questions on why this situation has arisen.²⁸

How has the Chinese minority in Indonesia been able to create and maintain its economic dominance? If one were to see the development of capitalism in Asia as a struggle for power over politico-economic resources, an approach that political economists often take, ethnic Chinese capitalists are a minority group that has been successful in this struggle for economic control, particularly in Indonesia.²⁹ Several authors ascribe this to Chinese alliances with local political power which enabled preferential access to scarce resources such as raw materials, technology and capital – an approach that is often termed rent-seeking or crony capitalism.³⁰ In Indonesia, the term *cukong* is used for a Chinese businessman linked to an official. It may not be clear at the outset in crony-type relations how and when the favour will be reciprocated.

Local political or military figures in Indonesia were keen to establish crony links with Chinese businessmen because they could derive economic benefits from this alliance without the other partner forming a threat to political power and because they could more easily be kept at bay.³¹ The fact that a leader like Suharto linked up with various ethnic Chinese businessmen can be understood in this manner.³² Elson, in his biography of Suharto, noted his unusual 'fundraising abilities',³³ and in his autobiography Suharto himself describes how he made use of the Chinese businessmen to achieve his objectives for the Indone-

sian nation.³⁴ This situation meant that companies were generally faced with an environment where relationships with those in power were an important factor to business success. This specific context of crony relations was particularly developed in Indonesia and less so in other Asian countries, although cronyism has also been noted in countries like the Philippines. Cronyism between officials and vulnerable minorities is by no means just an Asian phenomenon, but has also occurred in Europe.³⁵

Political economists also go a step further and claim that the ethnic Chinese businesses in Indonesia, through their crony relations, have managed to actively mobilise their resources to influence their business environment successfully. By creating and subsequently actively maintaining politico-business alliances they ensured alignment between political and economic elite to the benefit of both.³⁶ Again, this situation is not unique to Indonesia. In South Korea, some business groups, known as *chaebols*, have become dominant factors in the economy. Chibber argues that rather than the state controlling business, a more subtle mutual process between state and business interests led to South Korea's successful economic development.³⁷ Others argue more strongly that South Korea was troubled by an entrenched system of government-business relationships³⁸ or use the concept 'mutual hostages' to describe co-ordination between business and state.³⁹ In Indonesia the mutual dependence of business and state was perhaps even more pronounced. Schwarz claims that

Indonesia's policy-makers are hostage to the ethnic Chinese, whose firms produce a sizeable share of output. ... Thus the group [of ethnic Chinese] has usually been able to fend off measures that would hinder business operations.⁴⁰

Others focus less on crony relations with officials, but instead emphasise the embedding in personal networks between diaspora Chinese in Asia, based on common surnames, clans or dialect groups.⁴¹ Although a topic of debate, some researchers argue that networks based on dialect groups of ethnic Chinese continue to be an important factor influencing their business networks. Chinese migrants have set up voluntary organisations, often based on dialect groups, to fulfil functions such as preserving culture, providing mutual assistance and creating regional trade networks, and these organisations continue to flourish.⁴² Some authors argue that the intra-ethnic Chinese networks offer a competitive advantage as they cross borders and facilitate internationalisation.⁴³ Anecdotal evidence of business connections between large ethnic Chinese tycoons are given in many semi-popular books, for example in Weidenbaum and Hughes' book *The Bamboo Network*, the

title of which refers to the flexible networks of ethnic Chinese in Asia.⁴⁴

Cross-border minority group networking would also explain why so many ethnic Chinese tycoons have invested in China, usually also in their places of birth. Provinces with many migrants in southeastern China, such as Fujian and Guangdong have received an enormous amount of foreign direct investment in recent decades. The ties with one's place of birth are termed *qiaoxiang* ties, referring to a sojourner's village or hometown and have been the subject of analysis in a number of books and research projects.⁴⁵ Researchers emphasising the intra-ethnic networking skills often see ethnic Chinese family businesses as a transnational form of management, which is not necessarily linked to or rooted in a nation.⁴⁶ The basis of such intra-ethnic ties is often linked to Chinese culture. Chinese networks are commonly termed *guanxi* which refers to personal, particularistic relationships between two individuals.⁴⁷ The basis for *guanxi* can be a shared experience, for example, the same birthplace, the same school, the same clan, the same surname, the same family, and so on. As such, it is easier for Chinese people amongst themselves to develop *guanxi* than for Chinese with people of other nationalities. *Guanxi* has to be maintained by giving favours and for this reason it is often associated with bribes, especially in Indonesia.⁴⁸

Placing the literature on crony connections and intra-ethnic network of minority Chinese in a broader perspective, it appears that social capital, or the ability to use networks as a business resource, is an essential aspect of ethnic Chinese business. There is now substantial agreement that social capital facilitates individual, organisational, and collective action and thereby creates value.⁴⁹ Although social capital is useful in every context as a basis for competitive advantage, entrepreneurs operating in hostile environments, such as minorities in a corrupt host country, or in an emerging market with poor investor protection, could specifically benefit from long-lasting connections.⁵⁰ It is useful to distinguish between bonding and bridging forms of social capital, where bonding is building connections within the own social group and bridging means networking across social categories.⁵¹ Crony capitalism theories have argued that bridging capital is the basis for business success of (some) ethnic Chinese firms whereas diaspora theories focus on bonding capital between ethnic Chinese entrepreneurs.

There is also increased criticism of the migrant point of view. Similar to the criticism of the cultural perspective, migrant theories may stigmatise the ethnic Chinese, even if some migrant families have lived in Indonesia for generations and assumed an Indonesian name and nationality. Also, migrant theories do not always look at the dynamics of migrant entrepreneurship. Networks of entrepreneurs are known to

influence business decisions, but the composition and influence of the business network may evolve over time.⁵² Some authors have criticised the attribution of omnipotent powers to networking, and have argued that, as the business grows and its environment develops, *guanxi* and networking with political figures is not as important as in early stages.⁵³

1.4 Institutional Theory

The 'Chinese family business' and the 'migrant' approaches are sometimes combined. But a third kind of approach takes a radically different stand and focuses not on the businessmen themselves, but on their business environment. The institutional perspective argues that large diversified conglomerates, often held by families or coalitions of families, are perfectly normal types of economic organisation, particularly in emerging economies with weak economic institutions.⁵⁴ The types of strategies and organisations ethnic Chinese businessmen create – family business groups – exist in Chile, Mexico, Turkey and many more countries. There is, in the perspective of institutional economists or strategic management researchers, nothing 'Chinese' about this.

Institutional theory states that institutions are an important factor in shaping the strategy of organisations,⁵⁵ and lead to a particular set of business strategies in developing countries.⁵⁶ The fact that business groups are more prevalent in emerging markets than elsewhere has spurred a body of literature linking the existence of business groups to attributes of the institutional environment where (lack of) formal institutions, relationships, or norms, values and networks create advantages for developing diversified business groups.⁵⁷ It is argued that in 'weak' institutional environments it is hard for firms to acquire inputs such as capital, human resources or raw materials because financial, labour and product markets are not well developed. In such cases where intermediary functions are underdeveloped, a diversified business group may offer advantages because production factors can be internally sourced at lower cost.⁵⁸ Others attribute a role to the state or state policies in stimulating the development of business groups, such as in Japan⁵⁹ or South Korea⁶⁰ while others point to a more abstract 'institutional environment' as a conditioning factor for business.⁶¹ The institutional environment is a composite concept and refers to formal and informal constraints on organisational behaviour, where formal constraints refer to rules and regulations and informal constraints to norms, values, and networks.⁶²

Another concept used to explain why diversified firms are more prevalent in weak institutional settings is the transaction economics

approach,⁶³ which focuses on the contractual dimension of the firm. If the environment displays large levels of uncertainty and the costs and risks associated with a transaction with another party are high, it is better to do everything yourself. So it may be advantageous to create your own bank, your own export/import firm, insurance company, etc. Another way to overcome this problem of high transaction costs is to rely on family and trusted parties – or, in other terms, to form social networks which are reflected in the corporate strategy.⁶⁴ In emerging countries, market failures (i.e., very high transaction costs) and strong influence of the state on business may offer an incentive for companies to diversify. Diversification has been an issue of considerable theoretical significance.⁶⁵ The transaction cost approach offers one theory of why companies diversify, namely depending on whether transactions on the market or within the organisation are more efficient. Besides the transaction cost approach, another complementary theory is useful in explaining why business groups arise; the economies of scope. This theory is generally linked to sharable production inputs.⁶⁶ Examples of such ‘sharable production inputs’ are production capacity, human resources, capital, materials, or technology. Thus, if there are advantages in combining different products, and transaction costs to acquire resources outside the firm are high, building a diversified group or conglomerate could be beneficial.

If conglomeration and use of networks of trusted partners are responses to imperfect institutional environments, then as institutions modernise one would expect a move towards market-based strategies,⁶⁷ and eventually perhaps a convergence with Western management models. Extending this line of work, Peng and Zhou⁶⁸ argue further that the move of Asian firms from network strategies towards market-based strategies is not a sudden transition. In the face of institutional changes, the business strategy in emerging markets moves from a network-based strategy through an intermediate phase of weakening network ties before eventually evolving into a market-based strategy.

Critics of institutional theory argue that it assumes that organisations adapt passively to their context and as such it does not account for choices of managers. Managers can wilfully steer their organisations in certain directions and are not passive adapters to whatever institutional context, they can and indeed make a difference. Therefore, institutional theory cannot explain why organisations do not adapt to new environments, nor can it account for the success of different types of firms in the same environment.

1.5 Dynamic Model of Ethnic Chinese Family Business

It is clear that the three approaches described above have distinct assumptions and offer partial explanations (table 1.2). While the institutional approach attempts to explain ethnic Chinese business group strategy by looking at contextual factors (termed the institutional environment), the cultural approach finds explanations from within the businessmen themselves. The minority approach combines internal and external factors, arguing that minority groups create competitive advantages by developing different types of social capital. How they do this is informed by their values and dependent on the context. Recently the cultural and minority perspectives have been criticised and researchers increasingly feel that larger ethnic Chinese companies are undergoing fundamental changes that have hitherto received very little attention by scholars.

The aforementioned approaches, and the criticism of them, all offer a partial understanding of the strategy of ethnic Chinese family business groups, but taken together, may offer a more complete picture. I argue that an essential first step in combining the approaches above is to introduce a time element and look at the *evolution* of such business groups over time. Doing this enables one to distinguish between large and small firms and to address changes within ethnic Chinese businesses over time. A one-person trading business may be quite different from a multinational business operating in different countries and industries. If one considers subsequent phases of business development, from the first small one-person firm to the medium-sized family enterprise, to a large multinational conglomerate run by the next genera-

Table 1.2 *Classification of Relevant Literature*

<i>Approach</i>	<i>Academic Disciplines</i>	<i>Main Issues Addressed</i>
Ethnic Chinese Family Business	Sociology, Business, Anthropology Management	What are the characteristics and strategies of a Chinese family business? What is the influence of culture on management and strategy? Is there a specific type of capitalism among ethnic Chinese? How does generational change impact the family business?
Diaspora Advantages	Sociology, History, Political Economics, Management	What is the reason behind the business success of some immigrant groups? Why do some immigrants form crony alliances? Why do immigrants form intra-ethnic networks? What is the link between the diaspora and the home country?
Institutional Theory	Economics, Strategic Management	Why are business groups formed? What is the role of the institutional context? Why do business groups diversify? What competitive advantages do business groups develop?

tions of family leaders, one is able to see that some theories offer explanations for corporate strategy in one phase of their development, but not necessarily in another. Cultural values, for example, may play an important role for the first-generation migrant Chinese entrepreneur, while the second generation may have lost affinity with China since he or she grew up in Southeast Asia and perhaps received an MBA from an American university. When the family firm is large and increasingly global and professional, the owners' values may be of decreasing importance, but institutions may matter all the more for the strategy of the group.⁶⁹

The literature review clearly points at the importance of exogenous and endogenous factors that influence corporate strategy over time. While institutional theories place more emphasis on external changes in the business context as a factor in explaining strategy, cultural and family business approaches look primarily at factors within the firm, such as the value systems of the founding family or the generational changes in leadership. Diaspora approaches combine external factors, such as the economic position of a minority, with entrepreneurial responses. How do these internal and external factors influencing corporate strategy work out over time? Which factors are important in which stage of development? Once the above-mentioned theoretical approaches are placed in a conceptual model distinguishing between the different phases in corporate development, they substantially increase our understanding of how corporate strategy evolves in an ethnic Chinese family business (table 1.3).

It is not very surprising that, as a company grows, founding entrepreneur values become relatively less important and the corporate strategy could also be interpreted in terms of current global opportunities and strategic choices. Yet this basic insight has gained very little acceptance when it comes to ethnic Chinese firms. Even if we are talking about multinational companies, whose turnover is in billions of dollars,

Table 1.3 *Conceptual Model of Ethnic Chinese Family Firm Development*

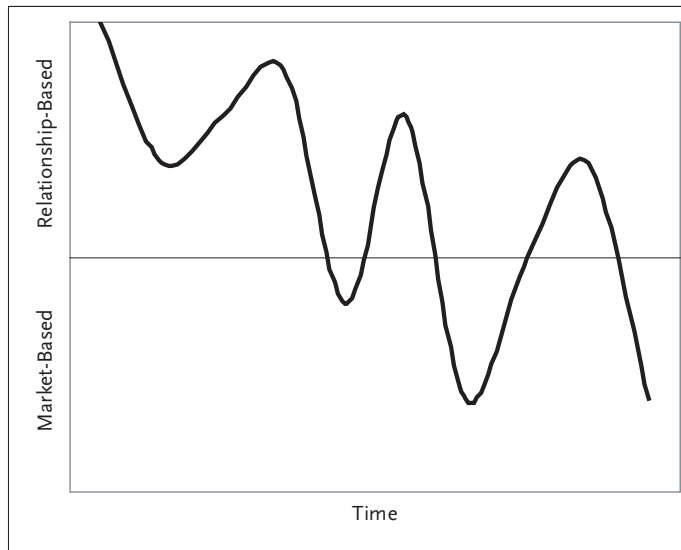
<i>Corporate Size</i>	<i>Strategy</i>	<i>Relevant Frameworks</i>
Small	Small Scale Trading	Chinese Family Business, Ethnic Networks
Medium	Diversification and Growth	Crony and Ethnic Networks, Chinese Family Business
Large	Internationalisation, Professionalisation, Generation Change	Institutional Theory, Strategic Management, Crony and Ethnic Networks, Family Business
Very Large	Multi-national strategy, domestic market power	Institutional & Strategic Management Approaches, Business Groups in Emerging Markets

many researchers continue to look at the cultural values and network strategies of the founder which occurred fifty years ago. New management patterns, the decline of old networks and the rise of new networks are often ignored as a result of this bias. In this study the strategy of an ethnic Chinese business over time is seen as a response to both internal factors, such as family values, culture, corporate growth and generational changes; and to external changes affecting the business from outside, for example state policies, corrupt host culture, economic modernisation or regime change.

Researchers taking a strategic management approach see the cultural and migrant approaches as a way of dealing with weak institutional contexts and sometimes refer to it as a relationship-based strategy. Following Peng⁷⁰ it is possible to make a distinction between (1) the relationship-based business model (where business opportunities arise as a result of personal ties with other Chinese business families and political powers) and (2) the market-based model (where economic logic independent of personalities prevails). The relationship-based versus the market-based model can be understood as a dilemma of two opposing choices. The relationship-based model is associated with highly personal, value-based networks, special favours for both parties, opaque transactions within and between companies, groups of individuals, and institutions. The market-based model is associated with competition based on choosing superior business strategies, on rational allocation of resources, and on adherence to certain internationally accepted rules. Overall, based on this literature review, one would hypothesise that ethnic Chinese family firms, as they develop over time, show a movement from a relationship-based to a market-based model as emerging markets develop and adopt more liberal market economies.

It is likely that a relationship-based and market-based strategy does not appear in a pure form among Asian conglomerates because cultural values and networked strategies continue to be important. A company may maintain close business relations with clan-members while also having joint ventures with Western multinationals and a close connection with a politician. These businesses may operate on different principles. In fact, depending on the situation and the strategic choices available, companies may alternate between these models. If one conceptualises strategy in ethnic Chinese family groups as a dilemma between a relationship model and a market model, one would expect a pattern of oscillation, due to irregular external influence on the firm and internal changes of leadership or directions. If Peng is right in his hypothesis, strategy in such firms would probably show an oscillatory pattern.⁷¹ I expect that evolution from a networked model to a modern market-based strategy is not linear, and that oscillatory patterns displaying some sort of rhythm are likely. Figure 1.1 presents the hypothesised

Figure 1.1 *Oscillation of Corporate Strategy over Time*



development of the strategy of an ethnic Chinese family firm over time.

1.6 A Coevolutionary Approach to Strategy

I have briefly touched upon a topic that is essential in corporate strategy: the degree of freedom a manager has to shape strategy. Is a company victim to environmental factors as is the focus of institutional theory? Or can it exercise strategic choice and adapt to or even influence its environment? The literature takes diverging directions attributing various degrees of freedom for management to influence their own strategy and their environment over time.⁷² Researchers of ethnic Chinese firms have also voiced divergent views on strategic choice. On the one end of the debate, it is argued that ethnic Chinese businesses are specifically good at adapting to their environment and are known for their resilience and strategic 'fit' within the business context of their time.⁷³ Even in a hostile context they have found ways to succeed in business. This adaptability is considered a central feature of ethnic Chinese business and is reflected in the organisational culture. Scholars described ethnic Chinese family businesses as having a flat organisational structure with a strong leader, an agile organisational form. The patriarchal leader is embedded in strong networks, which enable infor-

mation flows, alliances and facilitate cross-border trade.⁷⁴ Other researchers have argued that, on the contrary, ethnic Chinese businesses were unable to adapt successfully to new circumstances because of limitations inherent in their initial physical and cultural set-up – sometimes called administrative heritage.⁷⁵ Others refer to the fact that history matters for present-day strategy choices as ‘path-dependence’.⁷⁶ Initial conditions present in the business from its founding period limit the ability to change the business, although studies suggest that there is always an element of choice.⁷⁷ Some authors refer to the two perspectives described above (company strategy being either flexible or unable to adapt to the environment) as attributing a reactive and/or passive role to human agency.⁷⁸

The passive and reactive roles described apply to the development of ethnic Chinese business groups. Many ethnic Chinese business groups in East Asia that started in the post-colonial period show a very similar pattern. They initially began with trade, then moved into basic industries (food, cement), coinciding with the policies of import substitution industrialisation, then moved into more capital-intensive industrialisation such as chemicals in a policy environment of export promotion; internationalisation, and – to a limited extent – a recent move into more high-tech industries and services such as telecommunications.⁷⁹ The sequence of strategies clearly shows that the context strongly influenced corporate strategy. In the case of the very large conglomerates, the behaviour of the conglomerate also exercises a significant influence on the evolution of the domestic institutional environment. This can be referred to as a proactive role.⁸⁰ Rather than simply being influenced by their internal and external environment, this research points to the idea that transitions in large business group strategy and their internal and institutional environments are interdependent processes. Instead of a unidirectional causal relation between institutional environment and corporate strategy, there is a process of *co-evolution* of corporate strategy and the institutional context.

The co-evolution theory emerged in ecology to describe situations where two or more species influence each other’s evolution.⁸¹ The fundamental insight of co-evolution is that context shapes the evolution of a species by recognising that species sharing a habitat are part of each other’s environment, and therefore they may exercise an influence on each others’ evolution. Since the way each species evolves influences the evolution of the other, this gives rise to complex longitudinal patterns of intertwined relationships and unravelling the mutual adaptation mechanisms is the object of research by co-evolutionary theoreticians. Most co-evolutionary phenomena are location-specific, and co-evolutionary theorists speak of the ‘geographic mosaic of co-evolution’.⁸² This approach has little chance of resulting in generalisations

that apply to the species as a whole, because co-evolution will work differently in different habitats, but it is possible to unearth some patterns that may apply to other cases.

The metaphor of co-evolution has recently been applied to the organisational sciences field.⁸³ Coevolution theory has been instrumental in reconciling various theoretical debates in organisational science, in particular the above mentioned debate on the role of the institutional environment versus the role of human agency. Institutional theory has mostly focused on contextual variables that influence business behaviour.⁸⁴ As a result of organisations adapting to the environment reactively, organisations are remnants of past institutional contexts, i.e., they lag behind. Path dependency claims that as organisations develop, their options to exercise strategic choice are more limited because they are stuck in old routines. Institutional theory and path dependency tend to focus on what we have earlier called the passive or reactive roles for firms. The strategic choice theory however, assumes that organisations can meaningfully exercise purpose and that strategy is not solely the outcome of contextual variables.⁸⁵ Some firms are not only influenced by the context, they also modify and influence it. It is usually much easier to document the influence of institutions on the strategy of a company than the other way around. Most companies are too insignificant to exercise any influence over national institutions. Some very large companies, however, are in a position to modify their environment. Companies influencing their environment in a pro-active manner are often termed 'institutional entrepreneurs'.⁸⁶ The advantage of co-evolution theory is that it allows one to study the importance of these theoretical notions in a longitudinal case, and in addition investigate their interdependency. Academics using co-evolution approaches are not only interested in factors increasing or decreasing managerial purpose, but also in the question how this process takes place over time.

Most empirical cases using the co-evolution framework have confirmed that firms may exercise strategic choice, but that this is at the same time limited because of internal and external factors. The amount of empirical co-evolution studies is still relatively modest. The reason for this may be the considerable effort required to engage in longitudinal, context-specific studies. The majority of existing empirical studies have taken a class of companies in a certain national or regional industry context as their focus of study.⁸⁷ Only a few of these studies are specific to Asian family business groups. I am aware of only one co-evolutionary study of the development of ethnic Chinese family businesses in Southeast Asia, which examines the development of such organisations as a cluster in the institutional context in a longitudinal perspective.⁸⁸ There are virtually no co-evolution studies of single firms

in an emerging market that had an influence on institutions.⁸⁹ As far as I know, this is the first study of company in an emerging market that was large and powerful enough to directly influence its institutional context as well as being influenced by it. Bringing corporate strategy and the factors influencing it together in a co-evolutionary framework helps one understand strategic development of a company over time. It is especially when such studies are set in an emerging market context, that hitherto unexplored patterns of passive, active and pro-active strategy formulation can be analysed.

1.7 Case Study Selection

There is an abundance of research on small and medium-sized ethnic Chinese family business and a paucity of research with a longitudinal perspective. Studies with a strategic management perspective have mainly focused on smaller companies at a particular point in time.⁹⁰ Although several management researchers have reported on larger ethnic Chinese firms, these accounts were often based on anecdotal evidence rather than in-depth empirical research.⁹¹ Although various studies have addressed ethnic Chinese business groups in a comparative manner using quantitative analysis of publicly available financial data⁹² there are few in-depth longitudinal studies of specific ethnic Chinese business groups. Few researchers have been able to study companies over longer periods of time, partly because of the challenges such a study poses. Large ethnic Chinese business groups are often elaborate, complex, dynamic and often secretive in nature, all of which makes rigorous study difficult and time-consuming. Thus, in order to advance and integrate the various theories on ethnic Chinese business groups, a longitudinal, in-depth study of a company that developed from a migrant entrepreneur into a large multinational offers a promising research direction. The purpose of this study is to clarify how the strategy of an ethnic Chinese business group changes over time, and what factors may influence this process. This single case study helps to fill a part of that gap.

How does one select the most suitable firm for a single case study? In multiple case studies one may use statistical sampling, which is trying to select those cases from a population which may be representative. Within single case research, however, theoretical sampling is used, which refers to the idea that one selects a case that can most appropriately and clearly show the phenomenon of interest. Case study researchers often recommend selecting an 'extreme' case, firstly because the phenomenon of interest may be better observable, and secondly, because rigorous investigation of such cases may lead to theoretical

advancement.⁹³ Given the size, prominence and accessibility, I decided to focus this study on the corporate strategy of the Salim Group.

The Salim Group embodies the typical ethnic Chinese business for many Indonesians, and it is routinely mentioned in most academic works on ethnic Chinese business. Even if many Indonesians tend to think of the Salim Group as a 'typical' ethnic Chinese group, in many ways the Salim Group was not typical but 'extreme': extremely large, visible, professional, well-connected, powerful, international, etc. Its extraordinary size contributed to the Salim family being perceived as a symbol of ethnic Chinese businesses, thus making it a politically sensitive topic during the Suharto regime. Moreover, the long term alliance with Suharto made the Salim Group a well-known and despised 'crony capitalist'. Some popular and academic works even go as far to consider the Salim Group as part of the Suharto family business empire.⁹⁴ Whereas the Salim Group case cannot be considered representative of a larger population, its prominence and size may contribute to empirical results that facilitate the development of new theories.

1.8 Introduction to the Salim Group

The Salim Group consists of a large number of private as well as public companies – estimates are somewhere between 300 to 500 – placed under the common umbrella of the Salim family and a few trusted people. The portfolio of companies ranged from industries like banking, insurance, food, cement, to automotive and chemicals. In 1996, the group had a turnover of over US\$20 billion and around 200,000 employees, which made it by far the largest privately owned group in Indonesia. Although the Salim Group operates in a number of mainly Asian countries, most of the business is currently in Indonesia.

The founder of the group was Liem Sioe Liong, a Chinese from the Fujian province in South China who immigrated to Java before World War II. He initially started a small trading business with family and clan members, which gradually expanded and diversified while supplying goods to the local army after the war. During this period, Liem met Suharto, who was later to become president. His contacts with the army enabled him to grow and start small-scale manufacturing activities. Rapid growth occurred under the presidency of Suharto (1966-1998), who was able to achieve unprecedented economic growth in Indonesia for several decades (an average of 7% annually). Suharto offered friendly capitalists favourable business conditions, which he considered a strategy to build a modern, industrialised economy. The Salim Group benefited from this policy environment enormously and in the 1970s it started or expanded activities in cement, flour milling,

car manufacturing, banking, and textiles. A decade later, it had bypassed all its peers and had become the largest domestic group with close relations to Suharto.

As of the 1970s, Anthony Salim, who would become the second-generation leader, entered the business after having studied in the UK. His vision was to modernise the family business and make it less dependent on the government. In the 1990s, he started to take over control of the group from his father, as the business reorganised into divisions, increasingly under the control of professional managers. Several companies were now listed on stock exchanges in Indonesia or other countries. Numerous new ventures were started, and the group also invested substantially in Singapore, Hong Kong, and the Philippines, and had businesses in the Netherlands and the US.

Before the Asian Crisis, the future looked bright for the Salim Group. It consisted of hundreds of separate companies, in a variety of countries. The group had experienced strong growth, diversification and internationalisation. Around May 1998 however, the outlook for the group changed completely. Having been a close friend of the Suharto family, the Salim Group lost its favourable political connections when Suharto stepped down during the Asian Crisis. All Indonesian business was severely hit by the crisis, but the Salim Group faced both an economic and a political crisis. Having been the richest business family in Indonesia; being ethnically Chinese; and being close to Suharto, they came to symbolise the old corrupt regime in the eyes of the Indonesian people. When violence against the Chinese minority raged in Jakarta, mobs set fire to the Salim family house, people demonstrated in the streets carrying Liem's portrait and their Bank Central Asia (BCA), the biggest privately owned bank in Indonesia with two of Suharto's children on the supervisory board, fell victim to a bank run. Along with many other Indonesian banks, it had to be rescued and recapitalised by the new Indonesian government. Many believed this was the end of the Salim Group, but the group proved to be resilient to regime changes.

The founder, Liem Sioe Liong, withdrew completely from the business, and Anthony Salim was put in charge of facing the crisis. The new Indonesian government required a payment for recapitalising BCA, augmented with a fine for irregularities discovered in the bank's lending policy. In this way, the Salim Group suddenly faced a US\$5 billion debt to the new government in addition to rising corporate debt levels as a result of the depreciated rupiah. The new government pressured the group to cooperate and, to the surprise of many, the Salim family handed over 107 (shares in) companies to the new Indonesian government to pay off their debts, being the first at that time to seriously try to repay the company's debts to the authorities of Indonesia.

In fact, the Salim Group was to a large extent nationalised by the government as a result of these events. A few of their most precious companies, notably Indofood, were 'rescued' by smart financial manoeuvring.

In the period after the Asian Crisis, it took years to bring corporate debt back to acceptable levels. It was not until 2001 that the Salim Group first started to invest again, in property in China and in agribusiness in Australia. It tried to regain its former strength and focused on the business opportunities available in the East Asian region, while divesting its US and European businesses. Some of the former businesses in Indonesia were bought back, and new investments were made in Australia, China and other Asian countries.

In a nutshell, this paragraph described a few aspects of the fascinating corporate history of the Salim Group, which will be elaborated upon and analysed further in this study.

1.9 Research Methodology

Case research is usually grounded in multiple sources. Within Indonesia, reliable written sources are scarce, so interviews were deemed important. Semi-structured interviews were held with Salim Group top managers (including the CEO, Anthony Salim) as well as a range of stakeholders, which was unique given the political sensitivity of this group. As most respondents did not wish to become known they will remain anonymous. Although companies like the Salim Group are reluctant to make corporate information public, there are laws requiring the disclosure of information on public and – to a lesser extent – privately held companies. These corporate sources were also used. To complement this, structured searches in specialised and general media were also used as information sources on the Salim Group strategy and the Indonesian business environment. Lastly, a broad survey of political and economic development of Indonesia was carried out mainly using academic books and articles. Thus, the data gathered for this thesis can be grouped in three types of sources, namely corporate documents; media sources and interviews. In addition to the three empirical sources secondary data (books, academic articles) have also been used. While all those sources have disadvantages, these can partly be overcome by combining them. In case research it is common to make sure that arguments are supported by multiple sources. This procedure is usually termed triangulation⁹⁵ (see also annex 1 for a more elaborate description of sources).

The data-gathering phase resulted in an enormous amount of data, usually consisting of fragmented pieces of information. The first step

in the analysis was to restructure and internalise the material in order to pinpoint emerging themes. Thematic analysis focuses on emerging patterns in the data, and on procedures for addressing these.⁹⁶ Three themes were formed over time while reflecting on theories and data.

The first theme identified was business networks. It was clear from the beginning that the Salim Group worked with a large number of partners. From the outset this made the concept 'Salim Group' problematic. How can one define the borders of a conglomerate? Theory also placed emphasis on networks, but was not clear regarding whether ethnic, professional or crony networks may have been the basis for the success of the Salim Group. It was evident that the Salim Group engaged in various partnerships of many kinds, but it was not immediately clear what types, how important which partners were, and how the network changed over time. Thus, it was decided that the networks of the Salim Group needed to be researched in detail in order to understand how they evolved.

The second theme was an apparent discrepancy between this 'networked' model and a more independent professional business model. During the study it became evident that there was a strong dichotomy in views on the Salim Group. On the one hand, there was the view that the Salim Group was an unethical, corrupt and opaque conglomerate known for its unhealthy crony relationships with former president Suharto, which forms the basis of their success. On the other hand, there is a more positive appreciation of the professional competencies of the Salim Group and the view that the Salim Group is the best corporate group within Indonesia, employing the best corporate practices and capable of operating in different environments.⁹⁷ The dichotomy was initially puzzling because the two pictures did not seem to match. Because it was such an evident aspect of the initial data review, it was clear that this diversity showed different 'voices' that needed to be preserved in the analysis. The dichotomy supported the idea of the existence of both a relationship-based strategy (expressed in the first theme) and a market-based strategy as articulated by scholars such as Peng⁹⁸ and discussed earlier in this introduction. Once the data was placed in this context, the dichotomy was visible clearly in my interviews, but also in newspaper articles and documents/studies on the Salim Group. In interviews Anthony Salim literally said that he wanted to move away from connections and become more market-based. This was very similar to the theoretical notion that the Salim Group strategy could be understood as moving from a relationship-based model to a market-based model.⁹⁹ To further analyse and understand this dichotomy however, a more careful analysis was necessary.

The third theme was the flexibility and adaptability of the Salim Group. On the one hand, interviews with the Salim Group indicated

that the strategy was highly opportunistic, and it ‘grabbed’ business opportunities as they came. This is consistent with the culturalist approach which states that one of the characteristics of Chinese family business is its flexibility. On the other hand, Anthony Salim claims that he steered and designed the Salim Group – his leadership mattered, and he implemented a market-based strategy. To what extent can the strategy of the Salim Group be explained as a reaction to the institutional environment? How much did the group adapt to circumstances, and how much ‘choice’ did they have to influence their own strategy, and perhaps their own environment?

The three themes that emerged from the first analysis provided clear questions and a focus for subsequent data analysis and interpretation. Several procedures were followed to structure and analyse the data, of which only the most important ones are mentioned here. An analysis was made of all partners of the Salim Group over a period of twenty years. The leadership of the group was reviewed by making a database of board positions in Salim companies over 10 years, which showed the involvement of the family in the businesses, the effectuation of generational changes, and the involvement of professional managers. All annual reports were re-worked into spreadsheets in order to enable visualising strategic and financial trends as well as the development of the organisation structure. Interviews were summarised and grouped into clusters to enable comparison. All quarterly economic updates in the *Bulletin of Indonesian Economic Studies* were collected and studied over almost 40 years, and combined with World Bank reports and other economic reports these gave an indication of trends in the business context in Indonesia.

In order to ‘map’ the strategy of the Salim Group and subsequently investigate the influence of different factors on the strategic pattern over time, it is reasonable to assume that the corporate strategy of the Salim Group is reflected by the combination of all its strategic decisions, and is composed of a set of separate individual business events.¹⁰⁰ Each of these business events can be studied separately and their characteristics can be assessed. Combining those characteristics over time would then reveal a development in corporate strategy. In order to be able to ‘see’ strategy development chronologically, the raw data were completely reorganised into a list of new business events. In line with the triangulation principle, all sources were reviewed and combined to create a chronological list of 277 important business events for the Salim Group. The procedure is available in annex two and the results are described in chapter six.

1.10 Findings

The results of this study are, first of all, a contribution to understanding the Salim Group and secondly, a contribution to extending existing academic theories. Creating a more in-depth understanding of the Salim Group is particularly interesting for a number of reasons. First, the group has been a dominant player in various parts of the Indonesian economy for years, yet little is known about it from a strategic management perspective. There is no study available on how this group was structured and managed from 1994-2003, a particularly turbulent period for the Salim Group. Second, the Salim Group is known to be closed, and it is therefore a unique opportunity to have been able to interview the top-management of the group for this study. The information available to date was mostly based on secondary sources.

The research makes at least three contributions to existing academic knowledge. First, it provides deep and multifaceted information about one of the most influential business groups in Southeast Asia. Second, through rigorous analysis it shows that existing theoretical frameworks are only partially applicable to this case and argues that some are too limited to account for the complexity of an individual case. The cultural perspective is argued to be unable to explain the strategy of the Salim Group. Although perhaps in its early phases the Group met some of the characteristics of the typical 'Chinese family business' it does not match these criteria today. The diaspora and social capital perspective is valid, but this study also shows how business networks change over time, incorporating less ethnic and political ties and more Western and Japanese business connections. Emerging market theories offer a promising research strategy to explain the evolution of the Salim Group over time. Institutional factors play an important role in defining the business model of the group, which is deeply rooted in the Indonesian post-Sukarno business context. Internal factors, such as generation change also play a role in strategic changes. As such, the study validates some and invalidates other theories. It shows, from one example, that some scientific theories need modification. Third, the study develops a method for studying complex and intertwined patterns of corporate strategy. It shows the co-evolutionary patterns of strategy with internal and institutional factors over time and visualises these in a new type of oscillogram that enables the combination of quantitative and qualitative data. The results of this exercise show that corporate strategy is not a linear but rather an irregular and oscillatory process. The strategy of the Salim Group can be understood as oscillating between two opposite poles: a 'relationship-based' strategy and a 'market-based' strategy. It also shows how a single business group interacts with Indonesian institutions, influencing them as well as being influenced by

them. The close proximity of the group to the Suharto regime results in an interaction between company and environment, a phenomenon that can rarely be observed because most companies are too small to influence the national environment.

The chapters that follow describe the strategy of the Salim Group chronologically. Chapter two describes the history of the Group from its genesis until 1993. Chapter three describes the Salim Group strategy before the Asian Crisis, while chapter four describes how the Salim Group fared under conditions of regime change and economic crisis. Chapter five analyses the new strategy developed after the recovery of the Indonesian economy. Chapters six and seven respectively analyse the Salim Group strategy in the light of the theoretical approaches developed in the introduction, and describe the conclusions of this study.



2 The Birth of a Conglomerate

Today, our companies are intimately involved
in the day-to-day lives of millions of Indonesian families
Soedono Salim, Founder of the Salim Group
Source: Group brochure 1996

2.1 Introduction

Companies are started and built by people, and the company that is the focus of this study was founded by a Chinese immigrant in Indonesia. The first section of this chapter takes us back to southern China, just after the start of the Sino-Japanese war in 1937. From there we follow the young founder of the group – Liem Sioe Liong – to the Dutch East Indies where he started his first small-scale trading activities.

The struggle against colonialism and the establishment of the new nation state of Indonesia profoundly changed Liem's chances. The young Liem took advantage of these developments, and engineered a spectacular growth of his Salim Group over more than half a century, while riding the waves of a favourable political and economic climate during the rule of President Suharto. We find that the history of the group was closely intertwined with the political and economic development of Indonesia.

This chapter deals with the history of the group from its start until 1994 and serves as an introduction to the Salim Group. It also introduces some of the topics that will be elaborated upon in later chapters. Subsequent chapters will focus on the development of the Salim Group from 1994 to July 1997; from July 1997 to 2000 and from 2001 to 2003.

2.2 Liems on the Move

The Salim Group was founded by a man named Liem Sioe Liong, who was born on July 16, 1916 in Fuqing, Fujian province in southeastern China.¹ He was the second son of a rice-farmer and left China for the

Dutch East Indies in 1938.² According to some sources, he had to leave junior high school at the age of 15 due to poverty, which forced him to run a stall selling noodles.³

The timing of his migration was intertwined with his family situation as well as the general the situation in Fujian at that time. His father apparently had died when Liem was young. His elder brother left to Java and Liem became head of the family at the age of 13. The Japanese occupying forces created anxiety among Chinese people. Within this context, Liem Sioe Liong left his native country, reportedly with little more than the clothes on his back. The family land, which he sold, was reported to raise just enough money for the trip. He arrived in Java and joined his brother and uncles in the small town of Kudus on Central Java.⁴

Liem's migration was part of a long migrant tradition. Since the VOC, (*Verenigde Oost-Indische Compagnie* or Dutch East India Company) set up its headquarters in Batavia on the island of Java in 1619, there has been a more substantial and organised Chinese community.⁵

The Chinese migrant community was and still is divided into the *peranakans* (local-born Chinese) and the *totoks* (newly arrived Chinese).⁶ From 1740 onward, the Dutch tended to separate ethnic groups, and the Chinese were assigned their own residential quarters in the cities.⁷ Within the Chinese community, people were further divided into dialect groups (*bangs*) and subdivided in clans.⁸ Dialect groups were historically specialised in certain professions.⁹ To date associations based on dialect groups play an important role in ethnic Chinese business, especially among the *totok* Chinese.

Liem Sioe Liong, being from Fuqing, is a Chinese from the *hokchia* dialect group.¹⁰ The *hokchia* were latecomers in migration, and were traditionally located in the rural areas, often active in money-lending. They were considered a relatively poor group among the ethnic Chinese in Indonesia before the war. The *hokchia* are known to be a close-knit group with a strong tendency for mutual assistance.¹¹

From the mid-nineteenth century to the mid-twentieth century the number of Chinese immigrants to Indonesia rose substantially.¹² Due to the wave of new immigrations, mainly between 1860 and 1930, the *totok* community expanded, both in size as well as in economic power in the period up to the Japanese occupation.¹³

Throughout history, as a group, the Chinese have generally been better off than the Javanese peasants and masses, often acting as traders and middlemen. In 1930, according to one study, 58% of the Chinese in Java were engaged in trading activities.¹⁴ The Dutch colonial rulers gave the Chinese the legal status of '*foreign Orientals*' which was economically higher than the indigenous population.¹⁵ But they were also regarded with some suspicion by the Dutch rulers. This suspicion con-

tinued when Indonesia declared itself an independent nation state in 1945 and remains until the present day.¹⁶

When Liem Sioe Liong migrated to Central Java by the end of the 1930s, he certainly did not end up in a complete vacuum. As a newly arrived Chinese, a *totok*, he arrived in an existing and organised Chinese society, with family members that could accommodate him. His elder brother Liem Sioe Hie had already been there for several years, as well as two uncles. They gave him the opportunity to join them in business (peanut oil trade) and gradually save money to start trading on his own account. Some sources indicate that he was a shop assistant selling local produce before the Japanese occupation.¹⁷ His younger brother Liem Sioe Kong followed him after several years and the three brothers jointly formed a small company trading food products.¹⁸ Liem also offered credits to his customers, thus engaging not only in trading but also in money lending.

Since the three Liems ended up in Kudus, a place for the typical Indonesian *kretek* (clove cigarette) manufacturing, Liem Sioe Liong (hereafter: Liem) quickly became involved in clove trading as well.¹⁹ Liem later changed his name to the Indonesian-sounding Soedono Salim, following the example of many Chinese Indonesians.²⁰ The Javanese meaning of this is the following: *soe* = good; *dono* = capital; *sa* = three (referring to three brothers) and *lim* refers to Liem.²¹ Yet Liem is referred to by both his Chinese and Indonesian name to date, and the Indonesian media often call him *Om* (uncle) Liem.

2.3 A Daring *Danbangke*

In March 1942, the Japanese forces occupied the Netherlands Indies, and trade became nationalised and strictly regulated. Shortages in textiles and food occurred as international trade was hampered during the war. The Japanese tried to promote self-sufficiency for Indonesia, albeit not very effectively. A result was that a black market thrived, which offered business opportunities in the field of trading.

During the occupation the Japanese banned money lending in rural areas, the traditional activity of the *hokchia*. An opportunity for overland trade (usually seen as smuggling) started to arise. The *hokchia* were among the most daring and risk-taking groups, and many of them started to be small traders or *danbangke*, personally transporting/smuggling goods with bicycles. Liem was one of those *danbangke* traders operating between Kudus and Semarang.²² Liem later said that he was arrested by the Japanese, accused of illegal possession of arms and interrogated for a week.²³

Liem started a family during the Japanese occupation and subsequently got several children of which two, Andree Halim and Anthony Salim were to play an important role in the family business later on. The literature is not very clear on what happened to Liem in the late 1940s, but Liem's family business seems to have originated in this period. There are different accounts of how and when this happened. A Salim brochure from 1996 claims that the group started in the late 1940s. Another source adds that Liem's business suffered during the occupation and went bankrupt, forcing Liem to start all over again.²⁴ Liem himself said later:

I had gunny bags filled with Japanese money, but the new government introduced new money, and the Japanese money became worthless. ... You should not do business based on money, but based on goods (Liem Sioe Liong).²⁵

Yet another source indicates that Liem had a small local produce shop in Kudus with a clan member during the Japanese occupation. Later, when the partnership ended in the last month of the Japanese occupation, he established a partnership with his brother.²⁶ This happened in a context in which the *hokchia* were gaining economic power, especially during and directly after the Japanese occupation. In certain areas including the Kudus-Semerang area where Liem was located, the *hokchia* basically controlled the textile and *kretek* (clove cigarette) industry, the bicycle and spare parts trade, food distribution and started actively in manufacturing such as soap.²⁷

Although many *peranakan* Chinese left with the colonisers for the Netherlands, many *totok* stayed. So did Liem, who sided with the Indonesian nationalist movement. Some Chinese associations actively supported the soldiers of the Indonesian nationalists. At the time, the Dutch army was fighting against the nationalists, and some of their leaders went into hiding. His biography describes that Liem was part of the Futsing Hwee organisation, which was in turn part of the Chinese Siang Bu organisation. Leaders of that organisation chose Liem to house one of the fugitives of the uprising against the Dutch. Liem was chosen as he was known for his modesty, trustworthiness and quiet character. Liem took care of his guest for a year, reportedly without knowing who he was. This guest eventually turned out to be Hasan Din, leader of the organisation named Muhammediyah, and also the father-in-law of Sukarno.²⁸

The Indonesian nationalists declared independence on August 17, 1945, although they were granted sovereignty only in 1949. Liem resumed his trading businesses, mainly in basic commodities like peanut oil, cloves and coffee. Through his connection with Hasan Din, he was

introduced as a trustworthy supplier to the military. He supplied goods (medicine, food, and clothing) to the Diponegoro division of the Indonesian army during and after the struggle for independence from Dutch colonial rule.²⁹

Liem's trade with the Diponegoro division continued to be facilitated by his excellent connections, including Hasan Din.³⁰ Hasan Din was later reported to be one of the co-founders of the Salim Group³¹ and he acted as director of several of Liem's companies.³² But Liem was reportedly also very apt in trading under difficult circumstances. At that time, Lt. Col. Suharto, who was to later become president and a key connection for Liem, played an important role in the Diponegoro division. Despite Liem's role as a supplier for the army division, it is not clear if they had already been introduced to each other at that time.

2.4 All Businesses Are Good

After the struggle for independence Indonesia tried to build up its own economy, administration and private sector. Within this context, Sukarno emerged as the first strong national leader. From 1957 onward, President Sukarno implemented new policies that were radically different from those under Dutch colonial rule. The old colonial social and economic system was rejected by the new leadership. Foreign capital was now seen as a continuation of colonial oppression and most foreign businesses were nationalised.³³ Chinese capital came under scrutiny as well since some Chinese were seen as collaborators of the Dutch colonial regime.³⁴

After the initial period of independence, the government attempted to create an indigenous capitalist class as part of its nationalist policies. One of the measures taken to promote indigenous business was the so-called *Benteng* program. This programme was initiated in 1950 and ended in 1957. Under *Benteng* (which means fortress), import licenses were awarded to indigenous businessmen (this excluded the Chinese, who were categorised as *aliens* at the time) under favourable conditions. This did not produce the desired economic power shift.³⁵ Instead, 'the economic vacuum created by the elimination of Dutch economic interests and the inefficiency of state enterprise was to a large extent filled by Chinese business'.³⁶ The *Benteng* program – and other similar programs that were implemented later – failed to diminish the economic dominance of the Chinese minority.

Under Sukarno's leadership, Indonesia moved from a colonial capitalist system towards a policy of nationalism with a strong role for the state, which had detrimental effects on the economy. This period was called Guided Democracy. During this period, the business environ-

ment became very difficult: private business was tolerated at best and the economic situation offered a problematic environment for doing business with high inflation, low growth and limited international trade.

In the period following the independence of Indonesia, little is known about the founder of the group and his economic activities. Around 1956, Suharto was briefly posted at Semarang and Elson, author of a biography of Suharto, presumes that Suharto and Liem were probably introduced to each other around that year, but he found no evidence of a close relationship between the two men.³⁷ The Liem family moved to Jakarta in 1957 where the new government was beginning to gain influence. Jakarta also emerged as the new economic centre.³⁸ Liem seems to have mainly been active in textiles, trading activities and as supplier to the army, which gained in power during those times. It is important to place the economic alliance with army officers into the context of the position of the Indonesian army at the time. The army was building up its power in different areas of the society, including business (state enterprises as well as private business).

The Indonesian army had acquired a political orientation and political interests at the time of the revolution against the Dutch. Later, after the introduction of martial law in 1957, the army and other branches of the armed forces became deeply involved in politics, civil administration, and economic management with the result that the army became a key element in the government coalition under Guided Democracy.³⁹

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 (former minister).

The foundation of Liem's business group most probably dates back to the late 1950s when Liem formed several business partnerships beyond his family circle. His long term partner is Djuhar Sutanto, a fellow *hokchia* from the same district in China with the same surname in Chinese. A study of the Liem Group in 1989 indicated that the business was a family affair, complemented by a few other partners:

The group was established in the late 1950s by Mr Soedono Salim alias Liem Sioe Liong, his elder brother (the late) Mr. Liem Soehanda alias Liem Sioe Hie, Mr. Soedarmo Salim alias Liem

Sioe Kong, Mr. Doni Pranoto alias Liem Sioe Djwan (both younger brothers of Mr. Soedono Salim), Mr Djuhar Sutanto alias Liem Oen Tjien and (the late) Mr. Hasan Din.⁴⁰

According to Anthony Salim, Liem Sioe Liong's son, despite difficult circumstances in those early times, his father was successful and started to diversify and also become active in processed goods around 1953, following his belief that 'all businesses are good'.⁴¹ The Salim business ventures adapted to the often unpredictable environment and grew by taking the opportunities as they came, without a focused business strategy.

Today we trade in this product and tomorrow there's a new policy and the possibility exists that we trade in something else. The world of entrepreneurship has its own path and characteristics. Following this path is not easy, but mastering it is not impossible (Liem Sioe Liong).⁴²

The group evolved not by design, but by necessity. Whatever opportunity was good, we just grabbed (Anthony Salim).

It is not completely clear whether the expansion of the business in the period directly after the independence of Indonesia was funded by organic growth, by capital brought by new partners, or whether Liem was able to tap into external sources of funds from, for example, the Chinese community or banks.

Anthony Salim clarified in an interview that Liem already went into manufacturing under Sukarno: 'some textile factories started operating as well as a soap factory'. Apart from diversifying into manufacturing, Liem also started Bank Windu Kencana (in 1954) and bought Bank Central Asia (BCA) in 1957. BCA was to become the largest privately owned bank of Indonesia.⁴³ One author argues that the rise of Liem happened parallel to the rise of the *hokchia* group and can partly be explained by his alliances with fellow dialect members.⁴⁴ He initially expanded those lines of business that the *hokchia* had traditionally dominated.

According to his son, the Liem businesses were already quite established by the time Sukarno was forced out of office – among the top 20-30. This is supported by another source:

In addition to his trading activities in this period, Liem expanded into manufacture (textile, soap, nails, bicycle parts) and successfully established himself as a supplier of the Indonesian army. In the early 1950s, he established the Bank Windu Kencana and

followed this in 1957 with the purchase of the Bank Central Asia. When Suharto came to power in 1965, Liem already presided over an established and varied business group and had an established history of association with ... Suharto himself.⁴⁵

The claim that Liem's business group was already quite established before Suharto came to power has to be placed in the context of business at that time. In the difficult economic environment virtually no large private businesses existed, most commercial activities occurred on a fairly small scale.⁴⁶ Liem's businesses were not particularly large or very well known in this period.

Thus, after an initial period of small-scale local trading, Liem was successful in a diverse set of business activities with an opportunistic strategy in a difficult business context. His *hokchia* background initially provided a good starting point, but was not advantageous only, since Chinese capital was under pressure. Liem was able to build a successful trading network outside the Chinese community, mainly with the Indonesian army, who gradually gained political power as well as economic influence. He eventually moved from trading into manufacturing and banking.

2.5 Riding the Waves of Industrialisation

By the time president Suharto seized power in the mid-1960s,⁴⁷ the economy was in terrible condition with hyper-inflation (600% in the mid-1960s) and a huge state debt burden.⁴⁸ After President Suharto came to power, the business context changed and a new economic policy emerged in which industries slowly opened up for private investment. In 1967, the Foreign Investment Board was established followed by a five-year plan that aimed at industrialisation of the country. This was the first policy of its kind in independent Indonesia. Following the establishment of Suharto's New Order, Indonesia experienced a period of strong economic growth. Between 1967 and 1997, GDP grew an average of 7% per annum. During the New Order, several new economic policies were implemented that created a more favourable and stable business environment.

According to Liem's son: 'my father started to see this new business environment as an opportunity'. Liem made good use of his connections and two members of the Suharto staff were appointed at the board of the Bank Windu Kencana.⁴⁹ Liem began to appear among the circle of trusted ethnic Chinese businessmen with whom Suharto established close connections. Using a combination of business skills and political contacts, he acquired several export licences and held

import monopolies on cloves. His main companies were P.T. Waringin⁵⁰ (export of rubber and coffee) and P.T. Mega (import of cloves). The latter was one of the two companies allowed to import cloves by the government in 1968. Reports suggested that the licences and credit facilities these companies received were directly related to the close relationship with Suharto.⁵¹ These trading businesses in basic commodities gave Liem annual revenues of US\$340,000 between 1968 and 1970.⁵²

By the end of the 1960s, Liem had expanded his network of partnerships. Apart from Djuhar Sutanto, who also came from Fujian; Ibrahim Risjad, from Aceh; and Sudwikatmono, a cousin of Suharto,⁵³ also joined him.⁵⁴ These four, later complemented by Liem's and Djuhar's sons, are often called the Liem Investors or the Gang of Four. The Liem Investors had close ties with Suharto throughout the decades to come.

The army, now the leading political force, became very active in business-related activities, which provided the army with additional funds.⁵⁵ Suharto and his close associates played a leading role in many of these activities.

The general *modus operandi* was that the government provided credit facilities or privileged access to a certain market, in the expectation that members of the government (often sleeping partners in the arrangements) would be suitably paid for their cooperation. Amongst the key businessmen of the New Order was Liem Siu Liong, long a broker for army business schemes but now catapulted to new heights by the Army's dominance.⁵⁶

One of the army strategies was the use of special foundations (*yayasan*) for business purposes. These foundations were and remained big business until the end of Suharto's regime. They included the Yayasan Dharma Putra Kostrad, established by Suharto in 1964, which co-founded the bank Windu Kencana with Liem and operated other companies as well.⁵⁷ Liem's textile business, called PT Tarumatex, also reportedly received an order to supply military uniforms.⁵⁸ Another example is the Yayasan Harapan Kita, headed by Suharto's wife, which was associated with Liem in his company Bogasari (flour milling).⁵⁹

Bogasari was owned by the Liem group and Sudwikatmono served as the president director. In 1970, it received a monopoly on milling in the western region of Indonesia from Bulog, the state logistics company. The articles of association of Bogasari stated that 26% of the profits should be set aside for 'charitable' foundations like Harapan Kita and Dharma Putra.⁶⁰ The benefits of this milling arrangement for the Salim Group must have been substantial and the arrangement

lasted for decades. A 1987 World Bank report said that ‘the profit margin of the flour millers was 25 percent, which is described as “high by international standards” and “difficult to justify”’.⁶¹ The milling activities of Bogasari were among many new initiatives in Indonesia which were set up to replace expensive imports.

Suharto started to promote the industrialisation of Indonesia, and as a result of these policies, the structure of the economy changed rapidly. In 1965, only 15% of the economy stemmed from industrial activities, whereas industrial activity contributed 41.7% to the economy in 1980.⁶² The policy of import substitution industrialisation was common not only in Indonesia, but in several other emerging economies as well.

In Indonesia, the import substitution policy was carried out in various phases, of which the first was the ‘easy import substitution’ until 1975. This phase was concerned with industries that required relatively little capital and technology. Liem used his revenues from trading commodities to diversify into various industrial activities in the first phase of import substitution.⁶³ However, in view of the relatively small revenues in comparison with the cost of industrialisation, credit from state banks and probably also capital from partners must have played an important role as well.

Liem was well-known for his instinct for selecting the right partners and business opportunities. A person who knows him well explained:

An example of gut feeling is his move into automotive. The Japanese motor vehicles were the best at the time; European vehicles were not suitable for Indonesian conditions. Yamaha was already taken and Honda was part of Astra. Suzuki was part of a local company. Then Liem talked to the Suzuki sole agency holder in order to ask him to cooperate. He did not want to, but wanted to sell the business for a very high price. In terms of return on investment etc you would say it was too high. But Liem said no, I will buy it. It was very expensive, 50 million dollars or so at the time. And what did he do with it? Suzuki became number two in the market in Indonesia. Intuition is important for him (person close to the group).

Gut feeling, Liem was very good at that. For example selecting Sudwikatmono as a partner was a brilliant choice; he is a *pribumi*, a cousin of Suharto and really a man who knows his limits (person familiar with the Salim Group).

According to Anthony Salim, the group strategy was opportunistic:

Actually, it was not planned, not by design but by necessity. And number two, it goes with the opportunity of the country (Anthony Salim).

Apart from textiles and finance, the group set up activities in other sectors where opportunities arose: in flour milling around 1971 or 1972, cement in 1974 and the automotive industries in 1975.⁶⁴ In all of these industries, favourable conditions (such as access to credit and exclusive licenses) were created by the government in order to promote the industrialisation of Indonesia and Liem's direct relationships with Suharto facilitated the process.⁶⁵ Overseas partners, mainly Japanese, helped the development of the Liem Group by providing technology and knowledge.⁶⁶

In 1972, Anthony Salim returned from his education in the UK and joined the business. While the Salim Group grew quickly several domestic Chinese partners and two of Suharto's children also joined the group in the early 1970s.⁶⁷

In the early 1970s the group was joined by several new partners, namely Mr. Mochtar Riady alias Lie Mo Tie, Mr. Sigit Haryoyudanto, Mrs. Siti Harjianti Hastuti Rukmana, Mr. Ciputra alias Tjie Siem Hoan, and others.⁶⁸

It is impossible to manage all the companies alone. For this reason we need partners. For example, in banking we partnered with Mochtar Riady. In real estate we have chosen for Ciputra. If we are talking about the big group, it consists of different partners (Anthony Salim).⁶⁹

I met Mochtar [Riady] when I happened to be in the same aeroplane. We went to Hong Kong. We then spoke about banks. He had just retired from his position as managing director of the Panin Bank, and was still considering what to do next. I proposed to him: what do you think about managing my bank. He agreed and asked for 25%. I wanted a bit less because I have many family members. I knew he got 23% at the Panin Bank. I offered him 15% and we finally agreed to 17.5% (Liem Sioe Liong).⁷⁰

The fact that Suharto's partners (i.e., selected Chinese businessmen) benefited unequally from the industrialisation process did not go unnoticed. Complaints from students about corruption and the privileged position of Chinese businessmen erupted into violence on 15 January 1974, in an incident that became known as the *Malari* riots.⁷¹ This inci-

dent forced Suharto to establish a commission to inquire into corruption. One of the four priority cases mentioned by the commission was Waringin, Liem's trading company, although the case was never pursued.⁷²

Thus, from the 1970s onward, the Salim Group became involved in industrial activities on a much larger scale. The Group set up a large number of companies in a variety of sectors, several benefiting from close co-operation with Suharto and his regime. The development of the group is intricately linked to the economic development of Indonesia, and most of the Salim companies produced products for the Indonesian masses. A pattern of diversification – where new companies were started for every new line of business – was apparent from the very beginning. In a favourable business environment with the right high-level political contacts, the Salim Group – as it was known by then – rapidly grows through diversification as well as normal business growth.

2.6 Building Substance

During the period 1974-1981 Indonesia experienced an oil boom, which also helped businessmen like Liem succeed. The positive effects of this boom on the private sector were tax and credit benefits in certain fields as well as increased private and government demand.⁷³ After the initial import substitution industrialisation period, there was a period of state-led industrialisation focusing on resource processing industries that required more capital. This phase came with more protectionist measures such as restricted foreign investment and trade barriers, and it reversed some of the measures towards liberalisation.⁷⁴

During that time, the Salim family also benefited from its regional Chinese networks around Asia. The Bangkok Bank in Thailand, for example, funded the construction of cement factories.⁷⁵ The possibility to tap international – ethnic Chinese – capital was one additional factor that enabled the Salim Group to move from trading into more capital intensive manufacturing.

In this second import substitution industrialisation phase, the Salim Group became involved in steel and chemicals manufacturing during the early 1980s. An example of chemicals was its company Unggul Indah Corporation, which was established in 1983 and began producing alkyl benzene (ingredient used in the manufacturing of detergent) in 1985. Its entry into the steel industry was another example of close co-operation with the Suharto regime. The idea of building a steel industry came from the government and Liem was 'encouraged' to put up 40% of the costs of the steel plant.⁷⁶ When asked about their entry into the steel industry the Liem family said:

We moved into Krakatau Steel to help the government (Liem Sioe Liong).

If you want to invest up to US\$800 million it is easier to invest in other factories that make profit more quickly. But this is a special task (Anthony Salim).⁷⁷

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 significant increase in prices. In 1985, the import of cold-rolled steel became the exclusive right of Giwang Selogam, a Liem company formed in 1984.⁷⁸ State company Krakatau formed a joint venture with Liem and the Ciputra group to produce cold-rolled steel. The cold-rolled steel business was set-up with considerable overseas borrowing, but never made the expected profits. Therefore, the Salim Group withdrew from this business in 1990 by selling its shareholdings to government company Krakatau Steel.

Besides the above-mentioned new ventures, the Salim Group also continuously expanded the capacity of its existing businesses such as cement and flour. Activities in other industries such as real estate, construction and plantations were started as well, usually with domestic or foreign partners. Many of the Salim companies were market leaders or held (semi-)monopolies and were considered closely associated with the presidential family. The press therefore popularly referred to the Salim Group as part of the 'Cendana Trust' after the name of the Jakarta Street in which the Presidential Palace was located.

Anthony Salim argues that a change in strategy occurred as early as 1972, during the period of rapid diversification. In the words of Anthony Salim: 'rather than being driven completely by opportunity, the group began selecting its business opportunities'. This idea is not borne out by other sources, which indicate that the group started to become active in virtually all sectors of the economy in the 1970s, but also in the 1980s. One author even labels the period from 1981-1985 conglomerate diversification into unrelated business.⁷⁹

In the early 1980s, the Liem Group consisted of 54 companies in six fields: trading, automobile, manufacturing, property and construction, finance and timber, logging and miscellaneous (table 2.1).

In the mid-1980s the number of companies started to rise quickly. Having started with just one small company the business of Liem was now a group of separate companies that had grown from 3 companies in 1957 to 225 companies in 1986 (figure 2.1).⁸⁰ A CISI report in 1989 recorded 350 separate Liem-affiliated companies. Although known as

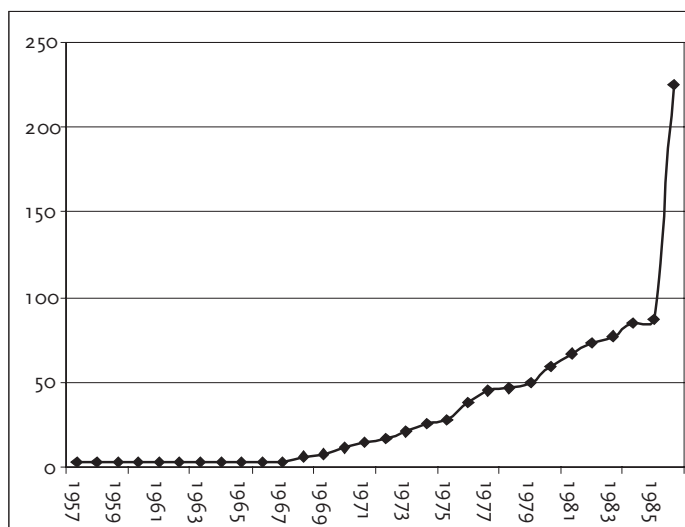
Table 2.1 *Salim Group Companies according to Robison*

Automobile	Manufacture
P.T. National Motors (Hino, Mazda sole agents)	P.T. Multiatex (textiles)
P.T. Unicorn Prima (Hino & Mazda assemblers)	P.T. Indah Kencana (nails)
P.T. Indo Mobile Utama (Suzuki sole agent & assemblers)	P.T. Indara Mas (bicycle tires)
P.T. Central Sole Agency (Volvo)	Rubber Refineries
P.T. Salim Jaya (Volvo assemblers)	P.T. Tarumatex (textiles)
P.T. Harapan Mobil Nusantara (Ford distributors)	P.T. Pangan Sari Utama (food processing)
P.T. Indohero (Suzuki motorcycle assemblers)	P.T. Bogasari (flour milling)
	P.T. Indonesia Cement
	P.T. Distinct Indonesia Cement Enterprise
	P.T. Perkasa Cement
	P.T. Perkasa Indah Cement Putih
	P.T. Perkasa Into Abadi Cement
	P.T. Tridaya Manunggal Perkasa
	P.T. Krakatau Cold Rolling Mill
Property & Construction	Finance
P.T. Metropolitan Kencana	Bank Windu Kencana
P.T. Wisma Metropolitan	Bank Central Asia
P.T. Metropolitan Devt.	P.T. Multifinance Corporation
P.T. Jakarta Land	Central Antar Jasa
P.T. Green Land	Metropolitan Leasing
P.T. Jaya Bali	P.T. Asuransi Central Asia
P.T. Jaya Mandarin Agung	P.T. Asswansi Java Central Asia Raya
P.T. Agung Utama	
P.T. Perwick Agung	Trade
P.T. Asia Nusantara	P.T. Waringin
P.T. Kabele Asia Nusantara	P.T. Waringin Kencana
P.T. Central Sari Int. Builders	P.T. Permanent
P.T. Nugraha Kencana Jaya	P.T. Mega
P.T. Cahaya Tugu Kencana	P.T. Arimono
P.T. Central Salim Builders	P.T. Hanurata
P.T. Rimba Kencana	
P.T. Budhi Agung	
Logging, Timber & Miscellaneous	
P.T. Kayu Lapis (plywood)	
P.T. Dono Indah (logging)	
P.T. Overseas Timber Products Corporation	
Indaco Ltd. (tin mining)	

Source: Robison (1986, p. 298-300)⁸¹

the Salim Group, the companies are separate entities and have no common legal identity. The ownership of the companies is often shared between Liem and other partners.

Faced with a group of companies that was growing rapidly, Liem and his sons started to introduce professional in addition to family management and attempted to decrease the dependency on government contracts.

Figure 2.1 *Number of Salim Group companies according to Sato*

Source: Sato (1993, 1994)

From 1972 that's when the crossover occurred. When we start to become much more by design rather than opportunity driven. Design in the selection of the business opportunity. The way we set up things. And also managing professionally, establish the concept of holding company, operating units (OPUs), accountability of management (Anthony Salim).

For a company as large as the Salim Group there is not enough family to take up all the leadership roles. We already have the separation between ownership and management here. The family and partners indeed are still the owners, and slowly we can go public. But our management is already professional. I think we are one of the groups in Indonesia that already had the courage to leave the management and operations to professionals (Anthony Salim).⁸²

According to Anthony Salim, the group began to be more market based in its outlook and strategy and wanted to be less connected to the government. Yet various sources indicate that the group was still very much intertwined in government relations at least until the early nineties. Some of its companies received government contracts, licenses beyond maximum quota or special credit facilities. Examples are Indomobil, the automotive pillar of the group that received attrac-

tive government orders,⁸³ or the above-mentioned steel activities of the group. However, the codes of reciprocity also required Liem to step in when needed. For example, when Bank Duta, the majority of which was owned by several Suharto-related foundations, experienced financial difficulties, Liem injected US\$200 million in 1990.⁸⁴

After the oil boom ended, in the early 1980s, the Indonesian economy witnessed a setback, and new policies were introduced, mainly aimed at liberalising the economy. In that difficult period, the rupiah was devalued several times, and companies having borrowed abroad suffered during this crisis. P.T. Indocement Tungal Prakarsa (a Salim company) was rescued by the government, which bought up 35% of the shares for US\$325 million in 1985.⁸⁵ Despite this, by 1985, the Salim Group emerged as the largest conglomerate in Indonesia, with annual group sales estimated to be over US\$900 million⁸⁶ and 225 separate companies affiliated with the group in 1986.⁸⁷ Liem's business success was attributed to his proximity to the regime, but the Salim Group was apparently also 'good at what it did'.⁸⁸

Thus, in the 1980s the Liem group still grew rapidly and now also moved into new capital-intensive industries such as steel and chemicals. In the difficult period after the oil boom the government stepped in to help Salim Group companies in several industries (cement, steel) by taking over (part of) their shareholdings. The Salim Group also started in numerous other industries and the number of companies affiliated with the group started to rise rapidly. The group was composed of an ever expanding number of legally separate entities that are under ownership of Liem or the Liem Investors.

2.7 The Design of an International Portfolio

Having outgrown its rather small home markets, and probably wanting to diversify their country risk, from 1975 onward, the Salim Group family business had already started expanding internationally to Hong Kong, and other Asian countries. This internationalisation process intensified in the 1980s and 1990s. In the mid 1980s, the Group seriously started its internationalisation efforts. The possibility of Suharto retiring and the business opportunities in the region must have played a role in this. Anthony Salim describes the new non-government and more international strategy as follows:

From 1979 we started to sort of elevate ourselves from government to market based enterprise. We do understand a lot of political implications, because 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, when we created our Singapore and Hong Kong companies (Anthony Salim).

The Liem family established an entity under which most of the international activities were grouped: First Pacific Company located in Hong Kong, but with investments in various countries. First Pacific started in 1982 as First Pacific Finance Limited, initially a financial services company. One of the early directors was quoted saying ‘we would be the Liem’s window to the world’.⁸⁹ In that year, several other companies with similar names were set up and the First Pacific group (listed on the Hong Kong Stock Exchange) started to acquire other companies, among which the Dutch trading firm Hagemeyer in 1983 and a US-based bank. In 1983, the Liems also controlled KMP, a Singapore-based holding company that in turn controlled a number of Singapore-based companies.

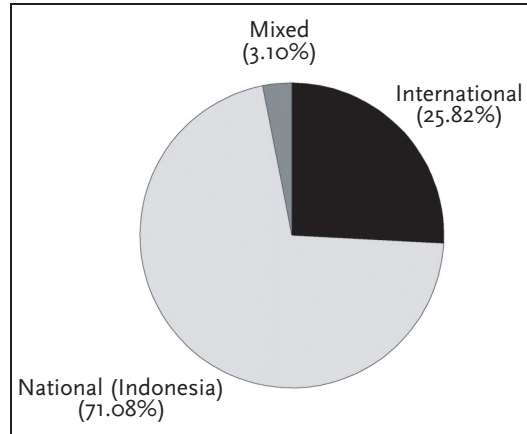
During this period, Liem also started investing in Fuqing, his home town, together with Djuhar Sutanto. With a group called Yuan Hong they invested in flour milling, a nearby port, and an industrial park. According to Djuhar Sutanto:

When we started this in 1987, Fuqing had no factories and no industrial workers. There were no conditions for them – no hotel and only a few antiquated telephones. We had to put in the infrastructure – roads, telecommunications, hotels and a pier’, he said. ‘Our aim was to do something for our home town, provide work for its people and raise living standards (Djuhar Sutanto).⁹⁰

By the end of the 1980s, the Salim group got access to international business networks, including the international capital market which gave it the option to move into more capital-intensive industries and also more degrees of freedom when it came to choosing its opportunities both in the domestic Indonesian market as well as abroad.

After a period of international diversification, by the mid-1990s, the result was that 25 to 30% of the assets were now outside Indonesia and around 70 to 75% inside whereas prior to the mid-1980s most assets were located in Indonesia (figure 2.2).

The main Salim businesses both in Indonesia and abroad produced for the local markets. When the Indonesian government tried to promote exports rather than industrialisation for domestic consumption only, the Salim Group set up some export businesses (such as shoes)

Figure 2.2 *Internationalisation of the Salim Group*

Source: Salim Group Brochure, 1995-1996

but largely stuck to their domestic business model. Perhaps this is captured by Liem's motto:

We plant a tree with the purpose of it growing big. What you should not do is to move the tree, which has already grown, to another place (Liem Sioe Liong).⁹¹

As a result of the deregulation packages of the period 1986-1988, Indonesia's capital market witnessed a structural change because of a rapid growth in banking on the one hand (among those Liem's BCA bank) as well as the rapid development of the Jakarta Stock Exchange.⁹² The emergence of the Jakarta Stock Exchange gave the Salim group more access to capital, and they listed various companies on the stock exchange, starting with Indocement in 1989. The listing of Indocement was controversial, since the company had made losses for the previous years, which resulted in the government buying up a significant portion of the shares a few years earlier. A condition for listing was that the company made profits for the preceding two years prior to listing. Indocement could only be listed on the stock exchange because of an exceptional ministerial decree.⁹³

The most publicised aspect of this transformation was the floating in the mid-1989 of new share issues in subsidiaries of about half a dozen of the biggest corporate conglomerates, including ... Liem Sioe Liong's PT Indocement. All of these shares were offered for sale at very substantial premiums ...⁹⁴

Other Indonesian Liem companies followed: Unggul Indah Cahaya (1989), Indofood (1994), Darya-Varia (1994),⁹⁵ and Indomobil (1997).⁹⁶ With the growth of the region, and the maturing of the capital markets, the Salim Group was now able to tap international capital from banks and investors.

2.8 Summary and Conclusion

Chronologically speaking, we can distinguish a number of different strategies for the Salim Group. It was started by a poor immigrant and was first a small-scale trading business in Central Java. Soon Liem, with his immediate family members, started in other lines of business, but still on a rather small scale.

As soon as the Group had accumulated some capital, it started to be active in a number of other non-trading businesses such as manufacturing and banking. Most of these were industries in which the *hokchia* dialect group was strong. Apart from links to family and dialect group members, Liem also formed partnerships outside the Chinese community, mainly with the Indonesian army.

With the help of high-level contacts, the Salim Group diversified into many industries catering to local consumers. The business of the group became closely linked to the activities of Suharto. The group started to be active in flour milling because of the policy of the government to first and foremost produce (rather than import) its own food to feed its people. This happened in a policy environment of import substitution manufacturing. The main diversification strategy was horizontal diversification into a number of unrelated industries. The group has profited from favourable policies for domestic companies such as licences and financing options from the government. This enabled it to move into various industries such as cement, steel, food, textiles and car manufacturing.

When favourable conditions in industries such as steel were abolished, the group used its connections to move out of these industries or to eliminate its debts. Later, when the group became larger, and when the second generation family members entered the business, international expansion into Asia and Europe became a logical next step. It started in the Pacific region but the Salim Group also established a foothold in Europe and the United States. With the development of capital markets, the Salim Group started to list its companies on various stock exchanges and also got access to international capital sources (table 2.2).

Table 2.2 *Summary*

<i>Period</i>	<i>Institutional Environment</i>	<i>Strategic Choices</i>
1938-1945 Genesis	<ul style="list-style-type: none"> - Chinese enjoyed strong position in trading - business context for private business strictly regulated - opportunities in smuggling/trading 	<ul style="list-style-type: none"> - small scale trading of various products - close cooperation with family members
1945-1957 Army relations	<ul style="list-style-type: none"> - difficult business environment - demand for basic products - important role of the army - start of a national economy 	<ul style="list-style-type: none"> - initial small-scale diversification - manufacturing of basic products and banking. - supplying goods to the army
1957-1965 Diversification	<ul style="list-style-type: none"> - nationalistic political environment - slow economic growth - rising power of the army in business 	<ul style="list-style-type: none"> - trade and manufacturing of basic products - further diversification and expansion
1966-1972 Capitalising on Suharto's New Order	<ul style="list-style-type: none"> - economy improving - army most powerful political actor & very active in business - opening up for foreign investment and international trade - import substitution & protection of local capitalists 	<ul style="list-style-type: none"> - linking up with Suharto to develop economy - evolving conglomerate as new business opportunities arise, e.g., import substitution industries
1972-1980 Institutionalising the business	<ul style="list-style-type: none"> - flourishing economy - industrialisation - business opportunities exist, especially when linked to Suharto or army 	<ul style="list-style-type: none"> - government connected business - supplemented with international businesses - design the conglomerate: institutionalise & professionalise
1981-1993 Institutionalising the business	<ul style="list-style-type: none"> - oil crisis and currency depreciation - import substitution efforts halted - export promotion policy - reduced cronyism 	<ul style="list-style-type: none"> - build international businesses - expand local businesses - work with government in order to resolve losses in various industries

3 The Midas Touch

In the 1990s, it was as if every business
you touched turned into gold.

*Anthony Salim,
CEO & President, Salim Group*

3.1 Introduction

In the previous chapter, the historical development of the Salim Group from its start by a Chinese immigrant in Central Java until its international expansion in the mid-1990s was described. The Salim Group developed from a small family business to the largest Indonesian conglomerate with operations abroad.

In the following chapters, I will look more closely at the specific features of the Salim Group in the last decade (1994-2003), the focus of this study. The Asian Crisis, which started in mid-1997, had a major impact on the Salim Group. It changed its size, composition, business model and management. Therefore, I divide this period into three phases: the period before the Asian Crisis from 1994-mid-1997 (the Midas Touch); the Asian Crisis from mid-1997 to 2000 (Fire-Fighting) and the post-crisis period of 2001-2003 (Axis of Opportunity). Each of these phases will be discussed in a separate chapter.

In the following three chapters, I will present empirical data gathered as part of this thesis, particularly interviews, annual reports and analysis of relevant media sources. In each chapter, I focus on the business context; organisation structure; strategy; co-ordination and control; and leadership style of the Salim Group.

This chapter starts with a description of the business context in the mid-1990s, a period of optimism and economic growth. It then provides a detailed overview of the Salim Group in 1994-1997, including estimates of its size and structure. Various sources indicate that the period 1994-1997 was a period of strong growth and expansion. Aside from growth of the existing portfolio, the group also diversified with several new investments. Many ventures were carried out in close co-operation with a variety of partners, thus creating a network of busi-

ness relations. In addition to that, the internal dynamic of the Salim Group in terms of internal restructuring and different types of synergy is analysed. In the last section, I look at the managers and their management practices within the Salim Group.

3.2 Growing with Asia

In the period from 1994 until mid-1997 most Asian economies, including Indonesia, experienced strong growth rates.¹ Looking in more detail at the Indonesian economy, the growth in the non-oil manufacturing, construction, finance, and business services exceeded 10% for the years 1995 and 1996. In these sectors, many of the Salim companies (Indofood, Indocement, Indomobil, BCA, and Unggul Indah) are active. The high growth offered business opportunities in Indonesia, especially for the already well established Salim Group, which was in a position to undertake large investments in a number of promising sectors.

The Indonesian economic policy was aimed at further deregulation and the promotion of exports, the latter having already started in the mid-1980s. As a consequence, the exports indeed increased annually, as in other Asian economies like Thailand and Malaysia. Trade deregulations as well as the deregulation of foreign investment in 1994 and 1995 in Indonesia meant that Foreign Direct Investment (FDI) started to increase.²

FDI was US\$2.6 billion in 1994/1995, but after the regulatory changes the net realised foreign investment rose to US\$5.4 billion in 1995/1996 and US\$6.5 billion in 1996/1997.³ Sectors that received a large share of foreign investment were chemicals, paper, metal goods, food, infrastructure, textiles and plantations. Japan was the key foreign investor with 19% of the approved non-oil foreign investment from 1994-1996.⁴ But a similar surge in investments occurred domestically, with an increase in domestic investment that surpassed the FDI. Food, paper, textiles, chemicals and non-metallic minerals were important recipients of domestic investments. The new investments were mostly financed with debt (56% in 1994; 103% in 1995; 70% in 1996). As a result the corporate leverage in Indonesia increased from 58% in 1994 up to 92% in 1996.⁵

Because of the strong economic growth figures there was a strong sense of progress and trust in the economies of the Asian region by Western investors and local businessmen alike. The World Bank, in a 1993 report, termed this growth the East Asian Miracle.⁶ Confidence was also reflected in the annual reports of the Salim Group companies. In 1996, the annual report of First Pacific (Hong Kong-listed Salim

company) was named 'growing with Asia' and Liem confidently reported 'improved profit on an increasingly solid foundation'.⁷

With the growing optimism about the future of Asia, many ethnic Chinese also started to feel more confident about their position, and some began to grant interviews. In 1996, the Salim Group published a brochure with an overview of the group's activities (see annex three). As ethnic Chinese firms in the region began listing their companies on stock exchanges, more information was available on the size of ethnic Chinese businesses. Interviews and articles about the overseas Chinese were published in the popular press. Following this uncharacteristic openness from the side of ethnic Chinese firms in the region, a number of books and academic studies started to appear that paid attention to the power of the ethnic Chinese in the Asian region and their investments in China.⁸

Despite the high economic growth in Indonesia, experts were increasingly worried about the rising corruption and preferential treatment given to some businessmen. Although the deregulations were generally effective in bringing down protection, some industries were still enjoying protective government measures, such as the automotive industry.⁹ Another example of protective measures was the sudden ban of foreign investment in the palm oil sector in 1997 – a promising sector dominated by four conglomerates. The Salim Group ranked second in this sector with 150,000 hectares under cultivation.¹⁰ The ban was later changed and foreign investment was allowed in eastern Indonesia (most plantations were located in western Indonesia). Other examples included the controversial 'national car' project by one of Suharto's children, which received various tax exemptions.¹¹

The combination of strong economic growth as well as their semi-protected status further enhanced the rise of certain corporate groups in Indonesia, most prominently those business groups closely associated with Suharto. According to two observers: 'favours to companies associated with the first family continue to concern – even to shock – long term observers'.¹² The well-connected companies included the businesses of Suharto's children (primarily Hutomo Mandala Putra ('Tommy'); Bambang Trihatmodjo and Siti Hardiyanti Rukmana ('Tutut') as well as the so-called cronies such as Liem Sioe Liong and Bob Hasan. President Suharto denied any wrongdoing when it came to his relation with Liem, in particular the quasi-monopolies of Indocement (cement) and Bogasari (flour milling). Instead, he presented the Salim Group as his instrument to achieve economic progress.

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.¹³

In order to further diminish criticism, Suharto issued a decree in January 1996 forcing large businesses to 'donate' 2% of their annual revenues to a special foundation. The foundation would attempt to reduce the gap between the rich and the poor. The foundation's board members included two of Suharto's children, Anthony Salim and Sudwikatmono, who was another member of the Liem investors.¹⁴ This unusual fund-raising effort caused even more concern over the transparency of Suharto's policies.

Thus, we can summarise the business context as follows. The economic growth in the region gave rise to substantial optimism. Large foreign and domestic investments in Indonesia occurred. The excellent economic position of some wealthy Chinese in the Asian region and their business ties with China became well-publicised. The preferential treatment of some ethnic Chinese businessmen like Liem was criticised but Suharto made no attempts to change the situation. Economic growth in combination with favouritism gave particularly good opportunities for well-connected groups. As we will see in the following sections, this business context offered a golden age for business groups such as the Salim Group.

3.3 Qiaoxiang Ties: The China Connection

The favourable economic climate was not only limited to Southeast Asia. China, which had gradually opened up for investments, started to offer a wide range of business opportunities, particularly for ethnic Chinese. Many of the now rich business tycoons, such as Liem, invested in China, usually starting with their regions of origin, in this case Fujian Province. Estimates of the share of FDI into mainland China from ethnic Chinese in Asia run as high as 80%.¹⁵ Especially the southeastern part of China profited from these investments, such as Fujian where most migrants came from. The links between the ethnic Chinese abroad and their home provinces were called *qiaoxiang* ties.

When Chinese migrants invested in China they were often criticised in Indonesia, because it would reveal a lack of assimilation and loyalty of the ethnic Chinese. Liem also came under attack and an international newspaper reported the following about Liem:

Recently he came under strong criticism for multi-million dollar investments in his home province in China. 'Where can I go?'

asked Mr. Liem. 'If I invest abroad, they call it capital flight: if I invest in Indonesia they say I want a monopoly'.¹⁶

As a consequence most people like Liem kept a low profile when it came to their business ties with China.¹⁷ Despite this low profile, it is clear that Liem has been an important investor in Fujian province. He built several factories such as a shoe factory, a flour factory and he invested in real estate. In 1993, he set up a joint venture with the Bank of China and opened the Fujian Asia Bank.¹⁸ According to interviews with various people close to the Salim family, these investments seem to be at least partly stemming from non-commercial reasons. The investments in his native place of birth have had a large impact on the small village of Fuqing. Several newspapers reported on Liem's influence on his native village. According to the *Australian Financial Review*, which dispatched a journalist to Fuqing in 1995:

About 90 per cent of the factories on the strip are controlled by Liem, tipping money back into his ancestral home. Of the village's 50,000 workers, Liem's operation – comprising food, plastic flowers, shoes, clothes, packaging and Fuqing's new port – employs 20,000 of them.¹⁹

Liem was also an active member of the Fuqing Association. The Chinese associations, often based on region or dialect, are known to be effective business networking platforms for ethnic Chinese. Liem was also on the executive committee of the International Association of Fuzhou (Fuzhou being the capital of Fujian Province), together with Robert Kuok.²⁰ The latter had entered into several partnerships with Liem, such as a sugar plantation in Sumatra. Within the period under review, 1994 until mid-1997, the Salim group made at least four new investments in Southeast China in automotive, telecom, city development, and ports, mostly in partnership with other firms.

Thus, with China opening up for investments, Liem also invested in his native province Fujian – particularly in Fuqing village. In view of criticism at home, Liem kept a low profile when it came to investing in China. During the period 1994-1997, the Salim Group made several new investments in southeastern China.

3.4 Supersize Salim

In the period prior to the Asian Crisis, the Salim Group was by far the largest Indonesian business group. Since the group consisted of various separate entities, some listed on the stock exchange, others pri-

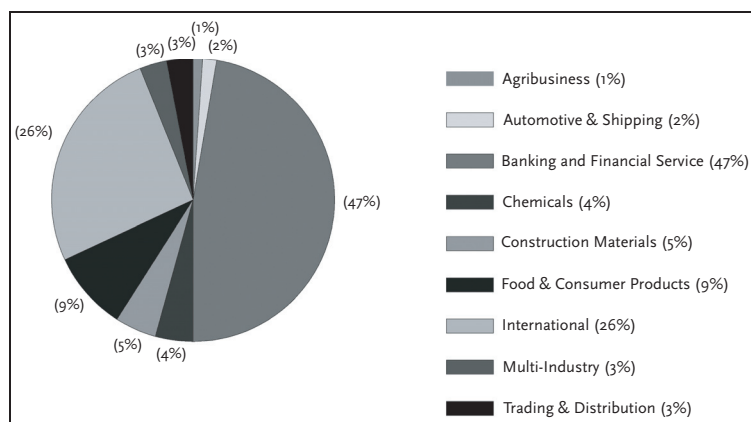
vately held, it is not easy to estimate the size of the group, although the Salim Group was the largest conglomerate in Indonesia, and according to one source, in all of Southeast Asia.²¹

The large earnings of the Salim Group also translated into personal wealth for the Salim family and its partners – who were the main shareholders. In 1994, Liem was the largest taxpayer in Indonesia, and Salim executives were reported to take the top five taxpayer positions.²² Having been Indonesia's largest taxpayer for a long time, Liem also consistently appeared on the list of wealthiest people in the world published by *Forbes*. Liem was already ranked no. 48 in 1988 and no. 68 in 1997, with an estimated net worth of US\$2 billion and US\$4 billion respectively.²³ With wealth came status, not just in business circles, but also in other fields. Liem, who had not received any university education, received an honorary doctorate from the prestigious US-based Wharton School where a special chair named after him was established.²⁴

After more than three decades of expansion and diversification, the Salim Group had 280,000 employees and was organised into 12 'divisions' in 1995:²⁵

1. Agribusiness;
2. Automotive and Shipping;
3. Banking and Financial Services;
4. Chemicals;
5. Computers & Communications;
6. Construction Materials;
7. Food & Consumer Products;
8. International;
9. Multi-industry;²⁶
10. Natural Resources;
11. Property Development & Leisure Industry;
12. Trading & Distribution.

Figure 3.1 gives an indication of the importance of the Salim Group activities by division. According to the turnover figures in the 1996 Salim brochure²⁷ banking (mainly BCA), food (mainly Indofood) and construction materials (mainly Indocement) stand out as relatively important industries in the Indonesian context. Its international division was substantial as well and contributed around 26% to total turnover in 1995. The international activities are mainly the listed company First Pacific in Hong Kong; the much smaller QAF (listed on the stock exchange in Singapore) and KMP in Singapore (which owned the majority of QAF, but also owned stakes in other companies as well); and

Figure 3.1 *Salim Portfolio as a Percentage of Total Turnover*

Source: Salim Group Brochure, 1995-1996; excludes property, natural resources and computers for which the figures are not known

some investments in privately held companies in Fujian, China and some other regions.

Several authors and media have estimated the turnover of the group in its golden age before the crisis. The most influential researcher on the Salim Group is Sato who has reported on the turnover of the Salim Group in various years: US\$9.8 billion in 1992; US\$8.6 billion in 1993; and US\$22.8 billion in 1996.²⁸ The latter figure represents about 4% of Indonesia's gross domestic product (GDP).²⁹

According to various newspapers, notably the *Financial Times* and the *Australian*,³⁰ the turnover of the Salim Group ranged from US\$9 to US\$11 billion between 1993 and 1995. The Salim Group, in its brochure, puts its 1995 turnover at over US\$20 billion. If these estimates are combined, a picture emerges of the approximate rate of growth. If Sato's estimates are accurate, the group experienced an overall growth in turnover of 40-50% annually between 1993 and 1996.³¹ This would mean that the growth rate is high and would certainly be a challenge for existing financial and managerial resources within the Salim Group. The high growth rates were a reality for Indofood and First Pacific Company, both companies grew mainly through acquisitions. Table 3.1 shows the turnover figures for the main listed Salim companies.

Thus, the Salim Group, which was already the largest group in Indonesia, grew very rapidly in the period under review. This growth, of which the turnover was just an indication, was the result of organic growth as well as acquisitions and new partnerships. In the next sec-

Table 3.1 *Turnover of Main Public Salim Group Companies (US\$ Million)*

	<i>Indofood</i>	<i>Indocement</i>	<i>First Pacific</i>	<i>QAF</i>	<i>Indomobil</i>	<i>UIC</i>
1994	622	1568	3804	206	1049	131
1995	930	1753	5249	231	1335	141
1996	1207	1824	7025	265	1361	157

Sources: various annual reports. N.B. not corrected for cross-ownership

tions, we will look in more detail at the factors underlying the rapid growth of the Salim Group.

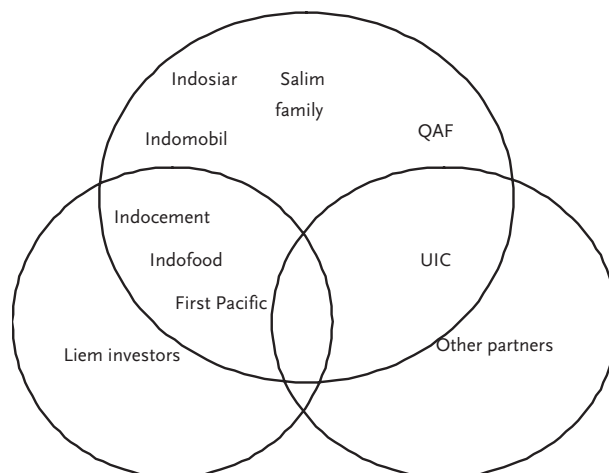
3.5 The Salim Web

Like many Asian conglomerates, the Salim Group works with a variety of partners. The core group of investors consists of Liem and two of his sons (Anthony Salim and Andree Halim). The so-called Liem Investors (i.e., the Liem family, Djuhar Sutanto and his sons, Ibrahim Risjad and Sudwikatmono) have also invested in several Salim Group companies. But there are other (minority) partners as well. A company may be owned by the Liem family and the other Liem Investors plus a partner, but could also be owned by the Salim family and a foreign partner. Despite all the different ownership structures all companies in which the Salim family has a major share are commonly considered part of the Salim Group.

In every company with a partner, the Liem Group is always the one with the largest shareholding (Liem Sioe Liong).³²

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 [the Salim family] may have some activities in which the Liem investors have a stake. But Salim Group [the Salim family] also has its own business. For example the Liem investors invested in First Pacific and Indocement. Salim family has Indomobil, plantations and so on where Liem investors have no role (Salim Group manager).

What is part of the Salim Group and what is not often remains unclear. It is therefore helpful to create in your mind a picture of the Salim Group as a network rather than as a single unit (see figure 3.2). The companies in the group are connected by ownership and leadership. Whether or not a company belongs to the Salim Group is often a matter of inside information, as the group only publishes results of its

Figure 3.2 *Salim Group Ownership and Structure*

publicly listed companies, not of the privately operated units or private holding companies. Interviews suggest that the Salim Group sometimes purposefully confuses the issue of who is the real owner of any one unit. The Liem family and the Liem investors are considered the core group of partners that have shaped the Salim Group.

Aside from the core group of shareholders many new businesses, particularly in the industrial manufacturing area, started out as partnerships. In the early stages, the Salim Group often took a leadership role in a domestic venture by acquiring a company that was not very successful. Examples of this are Indomobil and parts of the cement industry.

To buy what already exists and then make it big, that's the strength of the Liem Group. This is the reason why I can keep costs low (Liem Sioe Liong).³³

In the period 1994-1997 a large number of new partnerships were announced. These partnerships support the notion that the Salim Group is seeking to diversify even further, both in the nature of its activities as in its geographical locations. The new partnerships show a great variety of new activities for the Salim Group with a range of partners. We can distinguish between three types of partners: foreign (non-Indonesian and non-Chinese) partners; ethnic Chinese partnerships; and political connections (figure 3.3). Generally speaking, Western and Japanese partners are common in industries where outside technology

Figure 3.3 *New Partnerships of the Salim Group 1994-1997*

Source: coding results

was required. Indocement, Indofood, Indomobil were all set up in this manner.

In several cases, the original partners later withdrew or were bought out and the companies came under control of the Salim Group. In other cases, the partnership continued or was expanded into new fields. Ethnic Chinese partners are common when it comes to large Indonesian or Asian ventures or investments, often in the form of a consortium. Indonesian partners often involve ventures with the second generation Suharto family, but the scope and value of these seem rather modest in this period compared to the overall size of the group. According to a person interviewed for this study and familiar with the group:

Before the crisis there was not really a strategy. If he (Anthony Salim) diversified into small other things, it was probably to help out partners, such as the Suharto family (IBRA employee).

The choice of partners appeared to be opportunistic, as the following story reveals:

The partnership with Dunlop, which is basically run by Sumitomo, was completely by accident. At that time, the Dunlop man-

ager visited and proposed a tire factory in Indonesia, but we considered the investment to be too high. Then there was the Kobe earthquake in Japan, and all of the company's top management was in Indonesia. As their lives were saved, they wanted to move their facilities to Indonesia, and, therefore, with a low investment we had a partnership with them (Salim Group manager).

Thus, in the period from 1994-1997, the Salim Group entered into a number of partnerships with foreign (mostly Japanese and Western), ethnic Chinese and crony partners. The partnerships with Japanese and Western companies seem to be most important for the group when building up manufacturing businesses in Indonesia. The Salim Group also participated in regional ethnic Chinese networks, albeit usually as a minority shareholder. Ventures with the Suharto family also take place, although the scale of those activities seems rather modest.

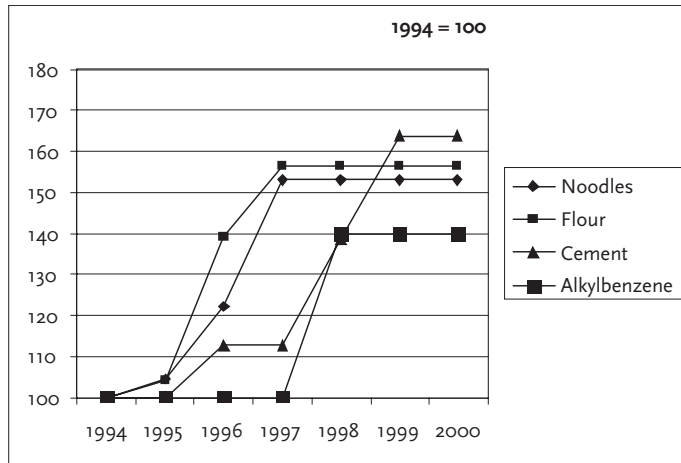
3.6 Further Expansion

Aside from the new partnerships the Salim Group announced in this period, the existing companies also expanded further through organic growth and acquisitions. The substantial organic growth of the Salim Group in the period 1994 to mid-1997 can partly be illustrated by the production capacity levels of the largest Salim companies in Indonesia. Production capacity for noodles, cement, flour, and alkyl-benzene was expanded before the crisis, although in some cases, like Indocement, the new plants only came on stream during the crisis.³⁴

Most of these companies sold their products on the domestic market, and the organic growth was directly related to the growth of the Indonesian economy.

Previously they were in every business. They usually target companies with mass production, no high tech and also little branded goods. Take Indosiar, for example, a TV channel that is not investing in high tech, more on the creation of programs for the masses that attract advertisers. They need cash for the short term, working capital (IBRA Employee).

Despite the Indonesian policy of stimulating exports, none of the listed Salim Group companies in Indonesia were exporting substantial portions of their production.³⁵ In 1995, the Salim Group reached market shares of 90% for instant noodles and 89% for flour. In cement the market share was 38% in Indonesia, but 71% in Java where about 60%

Figure 3.4 *Production Capacity Growth*

Sources: Annual reports of Indofood, Indocement, UIC, various years

of the Indonesian population lives. UIC, the partly Salim-owned alkylbenzene producer, held a monopoly. All these businesses achieved substantial production capacity growth (figure 3.4).

The expansion of Indofood's noodle production, which already had a 90% market share, caused some controversy. In 1995, the Salim Group applied for government permission to build three extra factories. The approval was initially withheld on the grounds that companies with a market share of over 50% would not be allowed to expand further. This policy was later suddenly reversed and it was announced that Indofood met the requirements necessary for expansion, which were that the company had to be listed and its products exported.³⁶ According to the 1996 Indofood's annual report, however, only 1.5% of sales stemmed from overseas sales in 1995 and 0.95% in 1996. Exports, which were never substantial for Indofood since its listing, actually showed a decline.

Information on the expansion of Indonesian companies not listed on the stock exchange was harder to obtain, but information from the Salim brochure in 1996 also indicated the extremely ambitious expansion plans of the Salim Group. Some examples were:

- Planned expansion of crude palm oil (CPO) production from 400,000 tons in 1995 to 2 million tons;
- Planned production of 700,000 tons refined sugar annually;
- Intention to cultivate 200,000 hectares of rice;
- Production increase from 96,000 tons of caustic soda in 1995 to 200,000 tons and from 90,000 tons of ethylene dichloride to 240,000 tons;

- Galvanised iron sheets production projected to increase from 90,000 in 1995 to 190,000 tons.

The international activities of the Salim Group also expanded rapidly. The listed company, First Pacific Company of Hong Kong, can itself best be described as a conglomerate with telecom, property, marketing, and distribution, as well as banking interests. It operated as an investment holding and several of the companies under its umbrella were themselves listed on various stock exchanges.³⁷ Contrary to the Indonesian companies, which were mainly active on the domestic markets, First Pacific did business in over 50 countries, not only in Asia, but also in Europe and the US. First Pacific was run by Manuel Pangilinan, a professional manager of Filipino descent who earned the nickname *Pacman* for his numerous acquisitions. These led to further diversification of First Pacific. The rapid development of First Pacific also contributed to the further internationalisation of the Salim Group. QAF, one of the smaller companies listed in Singapore showed a moderate growth, and also started to expand beyond Singapore, for example, to Malaysia, China and Thailand. The main business of QAF is bakery products.

Thus, having emerged as the largest conglomerate, the 1990s were used for additional expansion of existing businesses and for further internationalisation. The international activities, which now accounted for over a quarter of turnover, effectively decreased the dependence on Indonesia. The explosion of new ventures as well as the substantial expansion of existing businesses together made up the large growth of the Salim Group.

3.7 Consolidation and Vertical Integration

In the previous sections, we looked at new partnerships and organic growth; in this section, I describe the strategy of the Salim Group to cope with such high growth. One of the noteworthy aspects of the Salim Group is its complexity with large numbers of separate legal entities. The Salim Group companies were themselves subdivided into groups, such as the Indomobil group, the Oleochemicals group, the Mosquito Coils group and so on.³⁸ The Indomobil Group had 90 subsidiaries in 1997 with activities in manufacturing parts, assembling, distribution, sales, financing and vehicle rental services. Partly this complexity comes with the large number of partners. Indomobil had partnerships with Suzuki, Mazda, Hino, Ford (in financing), Nissan, Volvo and some smaller automotive players. According to a Salim manager interviewed for this study and involved in the automotive sector:

'Every partner with whom we have a JV needs a new holding company, because you cannot mix up partners.'

From 1994 to mid-1997, the group made several efforts to integrate its operations. The way in which this took place was by means of internal mergers and acquisitions. Internal acquisitions occur if one Salim Group company takes over another or if the ownership of Salim company A is shifted from Salim-owned company B to Salim-owned firm C. Although information on private companies is limited, the information available on the listed companies provides a picture of the intergroup consolidation efforts. If we look at the internal dynamic of the group, we see a number of interesting patterns.

In the case of the food industry, the noodle activities were merged and then listed on the stock exchange under the name Indofood Sukses Makmur (Indofood) in 1994. Following the listing of Indofood on the stock exchange, the Salim family started to sell several of their private enterprises to the now listed Indofood. In 1995, the flour milling activities (Bogasari), previously part of Indocement, were brought under the Indofood umbrella. In 1996, there were no major acquisitions, but in 1997, the majority shares of the privately owned edible oil activities, plantations and distribution activities were all sold to Indofood. These were all companies under the umbrella of the Salim Group, so we can speak of internal acquisitions. Palm plantations produce crude palm oil, which is processed into edible oil and used in the manufacturing of instant noodles. Flour is another main ingredient for noodles, and the distribution and retail activities are the sales outlets for instant noodles. In a period of four years, the Salim Group had consolidated its food activities in Indonesia by following a strategy of vertical integration and internal reshuffling of assets. A person familiar with the group:

Anthony Salim wants to be an integrated food player where he controls everything from the wheat to the noodles and from the pig to the frozen pork in the Chinese supermarkets. This food business is between 50 to 60% of the profits and cash flow of the empire. Therefore, food is a strong recurring theme for the Salim Group (person close to the group).

If we look at the cement activities in this period, the strategy was also one of vertical integration, complemented with related diversification. In 1996, Indocement Tunggul Prakarsa (Indocement) was working on the establishment of a coal mining facility, which would provide energy (one of the major cost components in cement production). It distributed its cement in Java with 164 trucks and partly owned the distributors. Indocement had portfolio investments in property such as office

buildings, hotels and industrial estates. Activities in construction management were also part of the portfolio as well as a minority interest in a toll road operator (owned by Tutut, one of Suharto's daughters).³⁹

Another example of the strategy of merging existing companies was Darya-Varia Laboratories, a pharmaceutical company in Indonesia. It first acquired a distributor – formerly owned by Salim.⁴⁰ It was subsequently listed on the Jakarta Stock Exchange. It subsequently made a series of acquisitions and it became the second-largest Indonesian pharmaceutical company by market share with production and distribution activities.⁴¹

Yet another example of an internal acquisition was UIC, the partly – Salim-owned chemicals company, which bought Salim Oleochemicals Singapore in May 1997.⁴² The chemicals division of Salim, which according to an in-depth report shows a high degree of vertical integration and is comprised of chemicals producers in various phases of the value chain for products like detergents, plastics, and packaging materials.⁴³ A Salim manager explained:

They (the Salims) want to be vertically integrated, in all industries. The choice of industries is opportunity driven. E.g., Hagemeyer was bought because the prices for Indonesian products are set by large traders/distributors. If you buy Hagemeyer you can control the price (Salim group manager).

Aside from the fact that these asset shuffles led to some degree of vertical integration, they also provided the opportunity to influence the flows of money within the group. Several interviews as well as newspaper articles indicate that the internal acquisitions are a way to make money, for example, when listed companies pay too much for acquisitions of private Salim companies. A banker close to the group said:

Take for example Indofood. The Salim Group has a private plantation, assets are inflated, and the plantation is bought by Indofood. On the basis of those extra assets, they are able to get extra borrowing capacity.

Thus, the number of separate entities was consolidated by means of smartly grouping companies under the umbrella of larger listed companies. The large listed companies in Indonesia followed a strategy of vertical integration by means of internal restructuring. The strategy of consolidation and vertical integration was carried out by internally transferring companies from private ownership to listed Salim companies.

3.8 Intra-group Synergy

Aside from vertical integration, there were also several indications of co-ordination between the different Salim Group companies in order to achieve synergy. Interviews with Salim Group managers clearly show that major activities are co-ordinated amongst them. Anthony Salim explained that synergy was about knowing how to create the right products:

We see this with different angles. What is the synergy between retail chain (Indomarco, 800 branches), Indofood and television? We see that as a synergy. Why? If you are able to understand the shelf, where people are buying things, the product, Indofood, then TV, then you can understand how the behaviour is of the people that are going to buy. Synergy is that we understand how people are creating new products. We can observe trends by the TV station, for example in advertisements. That helps us to understand what new products we should introduce. Of course if we talk flour, packaging – vertical; another synergy. Different ways of defining synergy (Anthony Salim).

For example the TV. The way we monitor is in 24 hours how many seconds you are advertising. The free seconds which you broadcast, if it is unused, we are trying to use as much as what we call inside advertising (Anthony Salim).

In this period, for example, when the group's companies needed cars, they would go to Indomobil and Indorent, the automotive branches of the group. When they needed construction industry services, they would use Indocement and so on. Several managers called group companies their customers and this is confirmed by the related party sales and purchases (table 3.2). Indofood for example, sold 60% of its output to related parties and Indocement 65% in 1994. UIC shows a particularly high level of related party sales, which is in line with the interview with one of the managers who indicates that the potential weakness of

Table 3.2 *Related Party Sales as a Percentage of Total Sales*

<i>Related Party Sales</i>	1994	1995	1996	1997
Indofood	60%	69%	31%	4%
Indocement	65%	63%	66%	78%
UIC	n.a.	91%	90%	88%

Source: Annual reports

his company is losing touch with the 'real' market because UIC sells mostly to related parties.⁴⁴

The group's companies used BCA (Bank Central Asia) as their main bank, making this financial institution perhaps the most important integrating factor (table 3.3). BCA was a key factor in providing loans to group companies, particularly short term rupiah loans. As a result of the relatively attractive rates on US\$ loans, most companies increased their indebtedness to foreign banks (and vulnerability for currency fluctuations), but BCA remained important when it came to domestic loans. In its annual reports BCA stated that it extended about 1.5-2.5% of its total loans to related parties in the period 1994-1996. However, in view of information that surfaced during the Asian crisis, it is more likely that this figure was considerably higher; according to interviews and reports, it may have been in the range of 50 to 80%.

Table 3.3 *BCA Short Term Loans (% of Total Short Term Loans)*

<i>Short Term Loans with BCA</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
Indofood	75%	26%	26%	52%
Indocement	25%	16%	38%	14%
Indomobil	n.a.	n.a.	17%	39%

NB: UIC did not have banking relations with BCA; it obtained most of its loans in US\$

BCA was but one example of its joint services; another is insurance. Most companies use group companies like PT Asuransi Central Asia and PT Asuransi Jiwa Central Asia Raya to insure their assets. There are also connections between listed and non-listed Salim Group companies. Take, for example, its food activities. Indofood focused on the Indonesian market, but apart from Indofood, the Salim Group also has similar but much smaller businesses in Saudi Arabia, Nigeria and China. Indofood provided management services for these foreign noodle makers and received fees in return. Other examples included packaging, for which group companies are used – although managers stressed that they had the option to choose non-group companies as well when it came to purchasing packaging materials. There were also inter-company loans which were actively facilitated by the people close to Anthony Salim.

They [people from the holding company] were familiar with the cash-flow; I could approach them to obtain cash from other [Salim] companies. For example if another company has excess cash, I can borrow from another company, but I have to pay. The holding company knows the situation of the companies, but if I borrow, the payment is directly between the companies, not

between the holding. It's like a broker, but no fee. ... When I want to borrow, I directly go to the other [Salim] companies for cash or I get the capital outside, for example by issuing bonds like we did. Every month we submit a financial report, so Anthony Salim knows it if we borrow from other companies (Salim Group executive, automotive sector).

Thus, looking at the internal dynamic of the group, we can say that there seems to be a coherent group-level strategy of achieving synergy between seemingly unrelated businesses. In the period 1994-1997 this strategy not only included diversification, growth, and vertical integration (as demonstrated in the previous sections), but also one of achieving synergy and of intra-group co-ordination. The horizontal integration can be witnessed in the high levels of related-party transactions (sales and purchases) and shared professional services such as financing, leasing, insurance and management consulting for group companies.

3.9 Co-ordination and Control of the Salim Group

In the previous sections, I demonstrated the existence of a coherent group-level strategy of vertical integration and intra-group co-ordination. This overall strategy was carried out under leadership of Anthony Salim by means of a number of control and co-ordination mechanisms. These mechanisms are the focus of this section.

The pattern of ownership within the Salim Group was often a pyramid structure. Companies were controlled sometimes directly, sometimes through a range of holding companies. Company A, at the top of the pyramid, may own company B with 51% of the shares, B in turn owns C by 51%, and so on. The ownership construction in the form of a pyramid allowed the Liem investors to control the companies in the pyramid while not having direct majority ownership of all of the companies. In other words, their cash flow rights were lower than their control rights. This ownership pattern was common for various companies.⁴⁵ An essential part of such a pyramid structure was that all companies are ultimately controlled by a holding company, which was not listed. Anthony Salim comments that 'a private holding is much more flexible, but it does not mean that we have no checks and balances. We operate with very stringent rules'. This pyramid ownership structure ensures that the legitimate decision-making power was in the hands of the Salim family.

A direct reporting line existed between the directors of the Salim Group companies and the Salim family. In the beginning the top man-

agers had to report to Liem Sioe Liong in Singapore. But in the 1990s, Anthony Salim gradually assumed his leadership role. Managers had to file weekly or monthly reports which gave fairly detailed income statements as well as market-related data. Anthony Salim actually studied and commented on all these reports in detail according to the various top-managers interviewed. Thus, the decision-making power inherent in the ownership structure was used by the Salim family to intervene in the management of the Salim companies until a fairly high degree of detail.

The Salim family often used terms that are common on Western management, without necessarily attaching the same meaning. One of such terms was the word holding company, which normally would mean a company that holds shares in other companies. The Salim Group considered its headquarters the 'holding company', even if such a thing did not exist as a legal entity nor did it hold shares in other companies. What they called the Salim Group holding company, which was presented as the headquarters in the Salim brochure of 1996, had the following units: legal affairs and taxation; internal audit and financial analysis; treasury; and human resource management. This holding company (or sometimes called a management holding company) was not a holding in the sense that it holds shares in other companies, but in the sense that it gave management services. One of the Salim managers adds to the confusion:

The holding company is not a corporate identity as such. Legally there is not a board as such. But certainly there is an organisation in the holding companies (Salim Group executive).

What seemed to be the case was that the Salim family with its staff made most of the decisions and plotted the long-term strategy of all entities belonging to the Salim Group. The 'holding' was chaired by Liem, whereas the day-to-day decisions were made by president and CEO Anthony Salim, assisted by his top management including executive director Benny Santoso.

Before the Asian crisis, a legal entity called Inti Salim Corpora performed the above mentioned tasks – although it is not unlikely that more than one registered entity performed co-ordination tasks for the group.⁴⁶ According to interviews with top – managers, Inti Salim Corpora recruited them and paid their salaries. It organised training sessions and social events. Several managers saw Inti Salim Corpora as the group of top managers of the Salim companies: 'Anthony's own people'. There were regular co-ordination activities within this group, which, according to one of the managers, comprised of over 20 people and had meetings at least monthly. They co-ordinated activities such as

joint projects or inter-company transactions such as sales or financial transactions and perhaps acted as an informal board for the Salim companies.

Inti Salim Corpora was set up as a management holding company. It is not truly a holding company as such, but only comprising of people who are providing the services to the Salim Group as a whole as well as to the operating units within the group. For example, in the past, they used to have the internal audit division, HR division, tax and legal department (Salim Group executive, various industries).

[Inti Salim Corpora] takes care of the management of the Salim Group. It's the key management people like Indofood, cement, Bogasari, the chemicals, property (Salim Group executive, automotive sector).

Inti Salim Corpora also had a large group of internal controllers and legal or tax-advisors. Estimates of the number of auditors that worked for the group as a whole and provided controls and directions to the different Salim companies run into the hundreds. They too received the periodic reports. Several managers experienced the internal auditors as 'very tough' and one top manager called them 'consultants – but with power'. The internal auditors also brokered financial transactions, but according to one manager, if you borrowed from another company from the group you had to pay. Therefore, although using the internal capital market was possible, it was not always the most favourable option.

Thus, in order to be able to carry out a coherent group-level strategy, the group made sure that the formal decision-making power was firmly centralised in the hands of the ultimate owners: the Salim family. The decision-making power is actively used to give detailed directions and was made possible because of a management information system of weekly reports that are studied in detail by Anthony Salim. Apart from this, a large number of internal auditors continuously scrutinised and checked the financials of the Salim companies. By means of one (or possibly more) entities a set of co-ordination mechanisms was implemented which ensured the group spirit and co-ordination of Salim activities in terms of possible inter-company synergy. A coherent recruiting strategy was also in place. An internal capital market was facilitated by the internal auditors.

3.10 Salim Group Leadership

In 1993, Liem Sioe Liong, now aged 77, started to pass on the leadership of the family business to one of his younger sons, Anthony Salim, who gradually increased his position on the various corporate boards. Liem himself also remained active on various boards within the group. Anthony Salim, then aged 44, started his career in 1971 after graduating from a London technical college and was chosen leader of the group despite the fact that he was younger than his brothers. One of the top managers described going to Singapore to report to Liem regularly, although in the period under review this role was slowly taken over by Anthony Salim.

The board of executive directors of a large Salim Group company is mostly composed of professional managers. These are usually trusted people that have been linked to the group for a long time. Professional managers generally stay with the group for decades and the group offers good incentives to its managers. Some managers eventually leave to strike out on their own and build their own group, such as Mochtar Riady. This former CEO of the BCA Bank successfully built his own financial group, the LIPPO group. The Salim family may also hold one position on the executive board and several on the supervisory board (as non-executive board members).⁴⁷ If the group is a Liem Investors company, the other Liem investors (Risjad, Sudwikatmono, and the Djuhar family) tend to also have seats on the board (annex four gives an overview of Salim Group executives). Table 3.4 shows the involvement of the Salim family and Liem Investors in Indocement, Indofood, and First Pacific, Indomobil (as of 1997), Bank Central Asia (BCA), and Unggul Indah Cahaya (UIC).

Besides Liem and his two sons, the only other family member to occupy a strategically important position is Franciscus Welirang, Anthony Salim's brother-in-law. He held an important position in Indofood (overseeing flour milling) and held board positions in other Salim companies as well. However, other than these four, there is no evidence that other family members are actively involved in managing the Salim Group. One other person who stands out is Benny Santoso, who works very closely with Anthony Salim. In the period 1994-1997, he held board positions in Indocement, Indofood, Indomobil, and Bank Central Asia.

The board memberships displayed above are in majority commissioners. This implies a supervisory rather than an executive role. Companies like Indofood, First Pacific, Indomobil and UIC are all run full-time by professional long-time Salim managers with strong personalities and thorough knowledge of the business. Unlike the owners, they stick to their business and rarely hold board positions in other listed

Table 3.4 *Liem Investors and Board Memberships 1994-1997*

First Pacific					Indofood				
<i>Liem Investors</i>	1994	1995	1996	1997	<i>Liem Investors</i>	1994	1995	1996	1997
Soedono Salim	x	x	x	x	Soedono Salim	x	x	x	x
Anthony Salim		x	x	x	Anthony Salim	x	x	x	x
Franciscus Welirang					Franciscus Welirang		x	x	x
Sudwikatmono	x	x	x	x	Sudwikatmono	x	x	x	x
Ibrahim Risjad		x	x	x	Ibrahim Risjad	x	x	x	x
Sutanto Djuhar		x	x	x	Herman Djuhar				x
Tedy Djuhar		x	x	x	Tedy Djuhar	x	x	x	x

Indocement					UIC				
<i>Liem Investors</i>	1994	1995	1996	1997	<i>Liem Investors</i>	1994	1995	1996	1997
Soedono Salim	x	x	x	x	Soedono Salim				
Anthony Salim	x	x	x	x	Anthony Salim	x	x	x	x
Andree Halim	x	x	x	x	Andree Halim	x	x	x	x
Franciscus Welirang	x	x	x	x	Franciscus Welirang				
Sudwikatmono	x	x	x	x	Sudwikatmono				
Ibrahim Risjad	x	x	x	x	Ibrahim Risjad				
Sutanto Djuhar	x	x	x	x	Sutanto Djuhar				
Johny Djuhar	x	x	x	x	Johny Djuhar				
Tedy Djuhar	x	x	x	x	Tedy Djuhar				

Indomobil					BCA				
<i>Liem Investors</i>	1994*	1995*	1996*	1997	<i>Liem Investors</i>	1994	1995	1996	1997*
Soedono Salim				x	Soedono Salim	x	x	x	
Anthony Salim				x	Anthony Salim	x	x	x	
Andree Halim				x	Andree Halim	x	x	x	
Franciscus Welirang				x	Franciscus Welirang				
Sudwikatmono				x	Sudwikatmono				
Ibrahim Risjad					Ibrahim Risjad				
Sutanto Djuhar					Sutanto Djuhar				
Johny Djuhar					Johny Djuhar				
Tedy Djuhar					Tedy Djuhar				

* no annual report available

* no annual report available

Source: Salim Group Board Membership Database compiled by the author

companies. These managers are sometimes in charge of other non-listed companies in similar fields.

The common 'Salim culture' the managers describe is one of informal decision-making and very hard-working. There is very little internal bureaucracy and reporting lines are short. Once managers are trusted they enjoy a considerable level of freedom. Outsiders generally find the culture different from other Indonesian family conglomerates.

They describe it as very professional. But others comment on the seemingly unchecked empire building and the aggressive style of doing business.

3.11 Summary and Conclusion

The period from 1994 to mid-1997 can be considered a golden age for the Salim Group. The economic environment was favourable, and the well-connected and large Salim Group was in an excellent position to profit from this business context. The overall sales growth rates for the group were approximately 40% annually during this period, which is substantially higher than the economic growth in the region. Most of the existing businesses, which were in high-growth areas of the Indonesian economy, had ambitious expansion plans. Their sales increased through organic growth as well as through acquisitions. The growth of the international division of the Salim Group, First Pacific, was particularly high, and as a result, the internationalisation process, which began in the mid-1980s, intensified and now contributed more than one quarter of total sales. The Salim Group became less dependent on Indonesia, where anti-Chinese sentiments and criticism of Liem personally were always present just below the surface.

A large number of new partnerships were formed in a variety of fields and countries, particularly Indonesia and China. Many of the joint ventures were formed with Japanese or Western partners, in particular in those industries that required technological expertise or large capital layouts. As part of consortia, the Salim Group also partnered with other ethnic Chinese in the region, although these ventures did not form a major share of their activities. Good relationships with Suharto and his children meant that the Salim Group could take advantage of the high economic growth by lobbying for favourable regulations, for example in instant noodles. Direct business ventures with the Suharto family now seem less important than in its initial growth phase.

The Salim Group cannot be categorised as a portfolio of different companies. A coherent group strategy of internal restructuring and vertical integration rationalised the main Salim Group companies. In addition to vertical integration, there was also a pattern of synergy between the group companies, which is for example evident in the sales, purchases, and loans to related parties. This shows that the Salim Group is not completely run as a portfolio, but that it takes advantage of inter-group linkages.

The control over the group is firmly in the hands of the Salim family, which established a system of reporting, control and active inter-

vention. Further co-ordination took place by facilitating contacts through a holding company named Inti Salim Corpora. The task of this unit was to control as well as facilitate integration.

The intra-group links become even more apparent if one analyses the board memberships of various Salim Group companies in the period 1994-1997. The Salim family and Liem Investors take up important board positions, although professional managers usually do the day-to-day management. The Salim Group culture is characterised as professional, hard-working and aggressive in its business pursuits (table 3.5).

Table 3.5 *Summary*

<i>Period</i>	<i>Institutional Environment</i>	<i>Strategic Choices</i>
1994-1997 rapid growth	<ul style="list-style-type: none"> - continuation of liberal economic policies - protection of selected businessmen - activity in connection with Suharto as his succession is discussed - more crony capitalism - FDI inflow 	<ul style="list-style-type: none"> - continue internationalisation - restructuring & vertical integration - hiring professional managers - small businesses with Suharto's children - fast growth of existing & new businesses, increasingly with foreign partners

4 Fire-Fighting

Uncertainty is always in the equation
Anthony Salim,
CEO & President, Salim Group

4.1 Introduction

The previous chapter described the growth of the Salim Group in the period 1994 to mid-1997. It argued that the group developed rapidly through new investments with partners, growth of existing business and acquisitions. Some of its important businesses were structured along the value chain by following a strategy of vertical integration. In addition a conscious strategy of intra-group co-ordination was carried out by the Salim family. The international division diversified and expanded through acquisitions. All this happened in a business context of high economic growth and government protection for well-connected conglomerates like the Salim Group.

In the period covered in this chapter, the business context is suddenly reversed. The economy contracted, the rupiah was devalued and many companies in Indonesia became insolvent.¹ The Asian Crisis led to an unprecedented decline and near-nationalisation of the Salim Group. Since the Salim Group played such a prominent role in the Indonesian economy, it also played a prominent role in the political and economic crisis in Indonesia. The Salim Group faced the most devastating years of its history.

This chapter covers the period from the start of the crisis in mid-1997 until the end of 2000. It starts with a description of the events leading up to the Asian Crisis, particularly in Indonesia. The dramatic events in the crisis and its effects on the Salim Group are analysed as well as the strategy followed by the Salim Group to cope with the crisis – a strategy of fire-fighting. It discusses the impact on the group's structure, ownership and leadership.

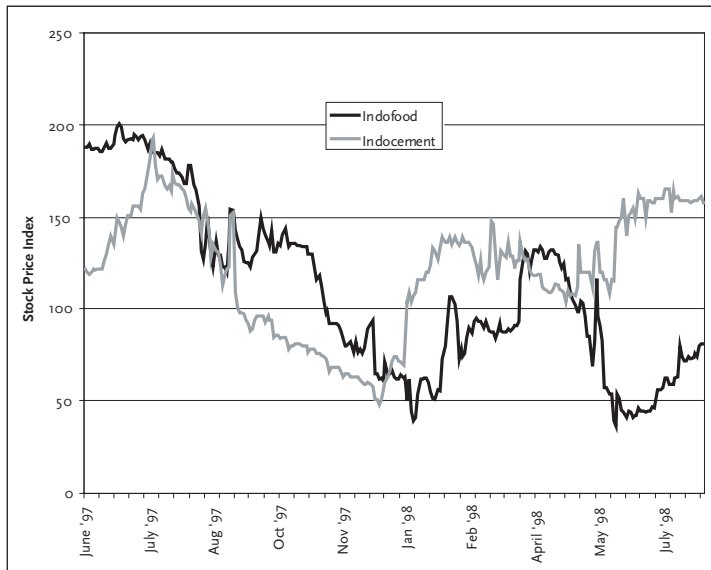
4.2 Unprecedented Problems

In May 1997, the Thai currency started to devalue rapidly, causing a panic among investors in the Asian region. In July 1997, the crisis began to spread to other countries, including Indonesia. The Indonesian government initially assured local conglomerates that the Indonesian currency would not be devalued. This proved unsustainable. After first widening the band, in August, the monetary authorities of Indonesia implemented a free-floating exchange system for the rupiah, which subsequently fell further at a rapid pace. The rupiah, which was valued at 2,450 to the dollar at the end of June 1997, rapidly lost value, reaching a low of 15,000 in June 1998. The fall of the rupiah caused a swelling of corporate debt since companies had most of their loans in dollars, while their assets and income were measured in rupiah.

The results of the crisis were that in 1998 – the worst year of the crisis – half of Indonesia's companies were technically insolvent and the economy contracted by over 13%.² The stock exchange fell sharply to a third of its previous level, particularly in the last quarter of 1997 and Salim company stock prices fell as well (see figure 4.1).

The vulnerability of the corporate sector in the region was clearly demonstrated by Pomerleano,³ who analysed the health of the corporate

Figure 4.1 Indexed Stock Prices of Indofood and Indocement



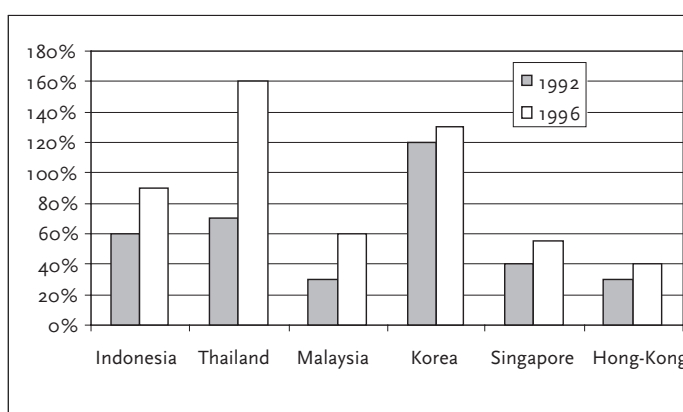
Source: Jakarta Stock Exchange

sector in various countries prior the crisis, and concluded that Thailand, South Korea, and Indonesia were the most vulnerable (figure 4.2). During a time when capital was pouring into Southeast Asia, many businesses, among them the Salim Group, had started borrowing heavily from foreign banks, which offered substantially lower interest rates than local banks. Moreover, most companies, including the Salim Group, expanded rapidly – which required extra capital. The result was a general rise in the debt-to-equity ratio of many Asian companies, and an increase in dollar denominated loans, making the corporate sector vulnerable to currency fluctuations. According to an IMF report the external corporate debt rose from US\$34 billion in 1996 to US\$60 billion in early 1998.⁴

The Indonesian economist, Thee, mentioned comparable figures: the total foreign debt of Indonesia was US\$138 billion, of which US\$64.5 billion was private debt.⁵ Even worse, many of these foreign currency loans were short-term. Indofood, for example, saw its proportion of US\$ short term loans as a percentage of total short term borrowings rise from 11% in 1994 to 49% in 1996, the year prior to the crisis. Most Salim companies experienced more vulnerability to currency fluctuations, as is demonstrated by their proportion of US\$ loans as a percentage of their total loans (see table 4.1). Indofood admitted it had hedged only 15% of its debt, and was forced to issue a profit warning in October 1997.⁶

As it became clear that the corporate sector experienced widespread problems paying foreign debts, the government appointed a special commission of five people (the Private Foreign Debt Settlement Team) that was to investigate the matter. Anthony Salim was one of the mem-

Figure 4.2 *Corporate Leverage in Selected Countries*



Source: Adapted from Pomerleano (1998, p. 8)

Table 4.1 *US\$ Loans for Major Salim Companies (% of total)*

<i>USD Loans</i>	1994	1995	1996	1997
Indofood	37%	54%	63%	77%
Indocement	29%	40%	54%	96%
Indomobil	n.a.	n.a.	51%	71%
UIC	88%	100%	98%	99%

Sources: annual reports of mentioned companies

bers. The committee, in January 1998, concluded that 228 Indonesian companies had experienced problems paying their foreign debts.⁷ Anthony Salim also sat on a committee called DPKEK (Council of the Stabilisation of Monetary and Economic Resilience) which advised on the macro-economic situation during the crisis.

Unfortunately, problems were not restricted to the private sector. When the rupiah entered a free fall, Indonesians started withdrawing money from ATMs and converting their money into dollars *en masse*, amidst a panic among the population as well as within the banking sector. Many Chinese businessmen had already started bringing their capital abroad. Since the 1988 deregulation, the financial sector had seen a quick rise in the importance and number of private banks. However, financial institutions were generally not properly monitored, and many banks were stuck with increasing amounts of non-performing loans⁸ and withdrawals. It was a phenomenal blow to an already fragile banking system. The government sought the assistance of the International Monetary Fund (IMF) and signed an agreement in October 1997. In November 1997, sixteen banks were closed as a result of IMF demands. As a consequence of the crisis, most of the banks were on the verge of collapse and were given life-saving injections from the Bank of Indonesia (the liquidity assistance was called BLBI credits).⁹ Many conglomerates had also used their banks for intra-group lending, something officially not sanctioned but a widespread practice in Indonesia.¹⁰ When the conglomerate companies started to experience problems, their banks naturally also experienced problems in the form of bad loans.¹¹

Aside from the crisis in the private sector and the collapse of the banking sector, the economic crisis in Indonesia also led to a political crisis. By the end of 1997 it was clear that the crisis was more serious than expected and a new agreement with the IMF was announced in January 1998. The IMF package of policies agreed to included lowering tariffs on various products, including those that had been beneficial to Salim companies such as wheat and chemical import tariffs, the lowering of the automotive sector protection rate, and the abolishing of the restrictive distribution arrangements for cement. Suharto was appar-

ently reluctant to commit himself to the IMF agreements, which meant the abolition of privileges for all of the people around him.¹² Relations with IMF became strained. While the economy continued to worsen, a third IMF agreement was announced in April 1998. Suharto's health – he was now 76 – also led to speculations with regard to his succession and for the first time in decades, Suharto's position came under increasing pressure.

In early 1998, economists started to voice open criticism of how the government had handled the crisis.¹³ Despite this, Suharto was re-elected in March although his credibility was declining. His new cabinet, which also included allies like his daughter Tutut and Bob Hasan, an ethnic Chinese businessman, was not well received. In January and February 1998, there had already been some scattered riots against small Chinese businesses, and the Chinese were afraid of being scapegoated for Indonesia's problems. A panic emerged and many people started to hoard food. Daily demonstrations by students against the regime became the norm. Liem and some other rich Chinese started distributing food parcels to the families most affected by the crisis.¹⁴

By May 1998, large-scale and devastating riots erupted. Public anger, aggravated by mounting prices for food and other basic needs, was mostly directed at the Suharto family and his so-called cronies. The latter were mostly Chinese businesses, among which the Salim Group was considered the largest. In practice, all companies small or large that were suspected of being Chinese owned were attacked by rioters while physical violence against them also occurred. Indonesia witnessed yet another period of violence against the Chinese minority and, amidst widespread riots, the Salims' family home in Jakarta was set on fire as well as several branches of their BCA bank.¹⁵ This unrest forced Suharto to resign on 21 May 1998 and hand over power to vice-president Habibie. After Suharto stepped down, a movement arose to fight corruption and cronyism. The common term in Indonesia is 'KKN' – corruption, collusion, and nepotism. The backlash against the 'Suharto way of doing things' was to have serious repercussions for all contracts and businesses linked to the Suharto family – including the Salim Group.

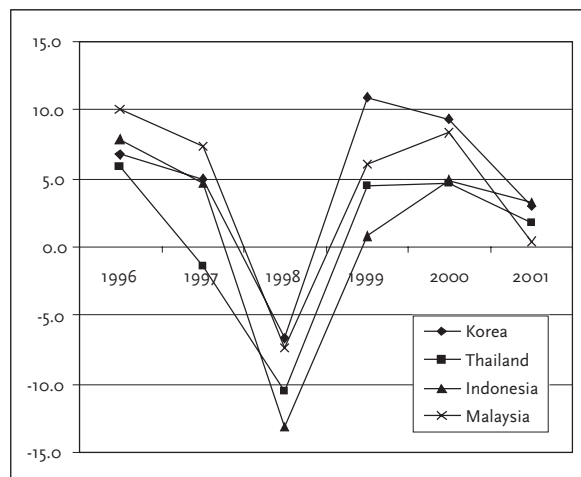
Habibie's presidency was fairly short (from May 1998 until October 1999) – and fairly troubled because of the ongoing crisis. After the elections in 1999, President Wahid, nicknamed Gus Dur, took office as the economy was showing signs of turning around, but it did not grow significantly either. Wahid apparently realised that Indonesia could not recover without the capital and talent of businessmen. Some of the conglomerates, including the Salim Group had simply grown too large to fail. He negotiated a deal so that the Chinese-Indonesian business tycoons would return the money that they had taken out of the country

– estimated to be between US\$10 and US\$80 billion. One of Wahid's first actions was to visit Singapore in November 1999 and talk to Chinese-Indonesian businessmen. Liem was reported to have been in the audience with Anthony Salim and to have agreed to return to Jakarta and resume his investment activities there.¹⁶

Some trials against former power brokers began, notably Suharto's son Tommy (who went into hiding but was later convicted and sent to jail) and Bob Hasan (also convicted). Several scandals involving corruption and nepotism came to light.¹⁷ Another movement that threatened the stability of Indonesia was that several regions were now demanding greater autonomy. Wahid made national unity a priority and announced a process of decentralisation, which did not lessen the 'cost of doing business' (i.e., corruption) but made it less centralised. Wahid's government was generally plagued with problems, prompting a comment that 'economic recovery remains hostage to politics, with the diverse coalition that makes up the cabinet unable to provide strong and effective government'.¹⁸ Only in 2000 did the economy show signs of some growth (4.8%) but the institutional context (government policies, bureaucracy, legal system) did not undergo any substantial changes.

The recovery from the crisis in Indonesia was slower than elsewhere in the region. According to one economist: 'owing to its weak financial and economic structures and institutions, Indonesia was unable to withstand the severe shock of the currency crisis. A political crisis arose that rendered a speedy economic recovery more difficult and intractable than in South Korea and Thailand'.¹⁹ The other regional economies also experienced a deepening economic crisis, which affected most of the companies included under the umbrella of First Pacific in Hong Kong and KMP in Singapore as well, although the effects of the crisis were less devastating for this group than those in Indonesia, which had the extra burden of a political crisis. The GDP growth in various Asian countries reveals the depth of the economic crisis and the length of the recovery (see figure 4.3).

To summarise, the Asian Crisis in Indonesia caused corporate debt problems as well as a collapse of the banking sector. During the subsequent political crisis the favourable regulatory environment for the Salim Group was abolished, and formerly valuable political connections turned against the group. The political crisis and anti-Chinese mob violence posted a direct physical threat to the Salim family and their assets. The business context in this period can best be characterised as extremely hostile.

Figure 4.3 GDP Growth in selected Asian Countries

Source: ADB statistics

4.3 House on Fire

During the first months of the crisis, the group continued its strategy of rapid growth and aggressive acquisitions. It was involved in several large bids and take-over attempts. These included a hostile take-over attempt of San Miguel (a listed Philippine brewer) and a bid for a large stake in the second-largest Indonesian private bank, Bank Danamon, in November 1997.²⁰ Both deals eventually failed to materialise as a result of the unfolding crisis.

Besides its acquisition plans, however, the Salim Group also acted quickly upon the emerging economic crisis. When asked whether he had prepared for the crisis, Anthony Salim said:

Yes, uncertainty is always in the equation. Pak Suharto cannot live forever. Number 2, we already started to institutionalise our businesses. Market based put into our consideration. Whatever the changes in politics, it's going to have an impact on macro-micro. Since we are in the market, we are somehow implicated. There is a public perception that we are close to Suharto, which is true, we don't deny it. We did things the best way we knew how at that time – three things: we distanced ourselves from government contracts, which at that time was a fruitful business – the last 20 years no government contracts; having market orientation for our business direction; we always do business

based on the regulations, prevailing law. Our family is always top ten 10 tax payer in Indonesia (Anthony Salim).

The first action taken by the group when the crisis broke out was an attempt to bring Indofood, its largest Indonesian company, under the umbrella of a foreign Salim company. Its first choice was the much smaller Singapore-based QAF.²¹ In order to do this, a rather complicated set of transactions was proposed by Indocement, Indofood and QAF to the shareholders. Indocement owned a majority (50.1%) of the Indofood shares, and it distributed those among its shareholders (i.e., the majority to the Salims themselves). The Liem investors subsequently sold their stake in Indofood to QAF in Singapore. Because the government owned 26% of Indocement (and had also received Indofood shares) it had a large say in the deal. The attempt to move Indofood offshore received explicit approval from the government, as voiced by various ministers.²² By virtue of its share in Indocement, the government now also owned 10% of Indofood as a result of this transaction. In order to maintain the majority ownership of Indofood, the Salim family had partnered a close business friend, Putera Sampoerna, owner of another Indonesian group, to also take a 6% stake in the company. This was necessary to maintain full control over Indofood.

These moves were discussed in the Indonesian press as 'capital flight', although this was denied by the Salim Group and the government. The unusual step was taken to allow media interviews with spokesman Benny Santoso, who had the difficult task of explaining this move in terms of synergy and attracting more capital in the lower risk environment of Singapore.²³ Just how much synergy you can achieve when you are a giant bought by a little dwarf remained up in the air. This action sparked suspicion in Indonesia that a change in political power was in sight. One former minister, interviewed for this study said 'if a group like Salim engages in capital flight it indicates a shift'. There were indications that the Salims also planned a similar move to sell Indocement to a foreign company.²⁴

However, the events that followed distracted attention away from this deal and the Salim Group had to focus on more urgent issues as the crisis worsened, which included a negotiated pay off or restructuring to deal with the mounting dollar denominated debts. An example of this was Indocement, which declared a moratorium on its debts because it could not afford to pay them any more. The company had started a large and expensive expansion at the wrong moment, financed it with dollar loans which mounted as the rupiah depreciated, while the demand for cement in Indonesia declined rapidly. Other companies also accumulated huge debts and had not hedged their foreign currency loans.

In the past every business you touch becomes gold. You think that the things never end. For example in cement, we started with 1 million, then 3 million, become 6 million tons, and then you're dead (Anthony Salim).

I believe Anthony Salim missed a chance. His financial advisors told him to hedge, but he calculated that it would cost him in the area of US\$80-100 million and he considered this too much. Then the crisis came and it turned out he made a mistake. He had taken a lot of credit at the BCA bank in order to save his companies. This was of course against banking regulations (person close to the Salim Group).

The debts (of the Salim Group) accumulated because they over-valued their assets. There was no proper check on financial institutions – this was for political reasons. It was in nobody's interest to have a functioning system of checks and balances. In general, the rules in Indonesia are not followed, because they can be bent by political connections (international journalist).

But the Salims were not alone in their misery. Anthony Salim, who was appointed by the government to negotiate with private sector creditors, was quoted as saying 'It's as if you're sitting on the Titanic. If Indonesia sinks, all the corporations will sink'.²⁵ While most Indonesian Salim companies were indeed sinking quickly and approaching insolvency, an even more serious problem for the Salim Group arose: the collapse of BCA, which had become the largest Indonesian privately owned bank. Siti Hardijanti Rukmana (Tutut) and Sigit Haryoyudanto, two of Suharto's children, had a combined 30% stake in BCA, and with Suharto's position under pressure, all kinds of rumours spread in Indonesia. On 14 May, newspapers reported the first mob attacks of BCA branches. The next day, newspapers reported that angry mobs burnt and looted the Salim family home, and many Chinese tried to rush to the airport to flee to Singapore or elsewhere while Jakarta was ablaze. The *New York Times* later reported:

Rioters had dragged out and slashed a portrait of his [Anthony Salim's] father and spray-painted the words 'Suharto's dog' on the gate. Reluctantly, Mr. Salim caught the next flight to Singapore. 'If your house is already burned, the next thing they would try to do is get the people,' he explained in a rare interview here. 'You don't want to get caught in the middle of something like that'.²⁶

Part of the widespread violence and panic was a bank run on BCA by worried customers. For weeks people were lining up to withdraw their money from the bank.²⁷ On 19 May, after some days of violence, the bank announced that 122 branch offices and 150 ATMs had been destroyed.²⁸ After days of continued withdrawals, the newspapers reported on 28 May 1998 that BCA was placed under state supervision.²⁹ The Salim family had, according to the interview with Anthony Salim, as well as news sources, tried hard to rescue and recapitalise the bank. But they did not succeed and handed over BCA to the government for recapitalisation.³⁰ Other sources tell a different story and claim that Salim had used the bank's money to save other companies:

When there was a rush on their (BCA) bank, people did not end up withdrawing 53 trillion rupiah. That is a lot of money. Conservatively estimating, maybe 25 trillion. They used the other half to channel into their corporations (former minister).

Within the hostile environment of riots, political chaos, and panic, the Salim Group's management withdrew to Singapore for a few weeks to see how things would transpire from a political perspective. The direct attacks on the Salim family, with their family home torched, made Jakarta too dangerous a place. Although Anthony Salim returned, his father remained in Singapore and never returned to Indonesia after the crisis. As a result of the collapse and nationalisation of the BCA Bank on 28 May 1998 the Salim Group became by far the biggest debtor to the government, owing some US\$5 billion. This amount included the pay-back of capital injections into the BCA bank (3 billion US\$) and a fine for violating the inter-group lending limits.³¹

As Suharto stepped down, suddenly open criticism of companies previously close to Suharto became possible. As a result of this anti-KKN movement, several recent Salim contracts came under pressure, one of them being the recently signed Jakarta City drinking water project that the Salim Group had embarked on together with France's Suez Lyonnaise des Eaux, – which had clearly benefited from its close relationships with the former Suharto regime.³² The Salim group was forced to withdraw from the venture. A Salim property project along Jakarta's coast was also cancelled.

Most of the already technically bankrupt Salim companies experienced further setbacks as the demand for products in general in Indonesia dropped. This was particularly true for luxury items such as cars and personal computers. Car sales dropped 83% in 1998 – which meant that companies like Indomobil posted losses and their partner threatened to pull out. Volvo, one of Salim's partners, issued a statement that they were revising their strategy for Indonesia.³³ Other Salim

Table 4.2 Profits of Selected Salim Companies during the Asian Crisis

Profit/Loss (US\$ million)	1996	1997
Indocement	235	-130
Indofood	150	-412
Indomobil	46	-139
UIC	18	2

Sources: annual reports. N.B. not corrected for cross-ownership

companies in Indonesia were no better off; their main cash cows Indofood and Indocement also reported losses in 1997 (table 4.2).

First Pacific, the international division of the group, also suffered. Its subsidiary Metro Pacific started to post losses (over a troubled property project in the Philippines) and First Pacific announced a strategy of selling off investments in a variety of companies. It first raised US \$2 billion by selling Hagemeyer, a Dutch trading company, and a few other companies.

The sale of Hagemeyer, which was the foothold of the Salim Group in Europe, meant that First Pacific again became a conglomerate completely focused on Asian markets.³⁴ The money was subsequently used to strengthen its existing businesses and invest in new acquisitions. One of the acquisitions was a majority stake in Philippine Long Distance Telephone (PLDT) for US\$749 million (*Financial Times*, 1998a, 1998b).³⁵ When it became clear that QAF could not buy Indofood, First Pacific came to its rescue and in December 1998, First Pacific acquired a controlling interest in Indofood.³⁶

4.4 Indonesian Bank Restructuring Agency

The government had established the Indonesian Bank Restructuring Agency (IBRA) on 27 January 1998 as a consequence of agreements made to obtain IMF assistance.³⁷ IBRA was to oversee the ailing (but still viable) banks. As of May 1998 this included the formerly Salim-controlled BCA bank, along with most of the Indonesian banking sector. IBRA was supposed to recover the banks' debts, either in cash or in assets. Assets that IBRA received were subsequently sold on to investors or the general public, with the proceeds flowing back to the state.

Unlike the average scruffy Indonesian government institution, this entity had the appearance of an investment bank, with young well-trained staff members and a shiny building. Its employees were mostly from investment banks, whereas its chairmen (it was a revolving door of chairmen in the short period of IBRA's existence) were political fig-

ures. IBRA quickly became one of the most powerful institutions in Indonesia as they managed assets worth a third of Indonesia's GDP and most of the large conglomerates were its 'patients'.³⁸ Its mission as described in the strategic plan for 1999-2004 stated:

to aid economic recovery through the restructuring of the banking sector and corporate debt, and to maximize the recovery of state funds to reduce pressure on the government budget.³⁹

IBRA requested the former owners of those banks under its supervision to inject new funds into their banks, which the Salim Group agreed to do in August 1998.⁴⁰ In that same month, the chairman of IBRA revealed that besides having to pay back the liquidity assistance provided by the central bank to keep BCA running, the Salim Group also violated the legal lending limit, for which it also had to pay as well. In total the amount to be paid was agreed to be over US\$5 billion. According to Anthony Salim,

Our approach is: OK, we open up. We don't believe that negotiations should be hide and seek. This is our wealth; now let's negotiate how this is going to solve the problem (Anthony Salim).

IBRA officials who frequently negotiated with him during that period confirm that he laid his cards on the table – but he remained a tough negotiator. Anthony Salim, as well as sources in IBRA, confirmed that he offered a list of his companies, and IBRA was able to choose the most liquid assets. Despite these statements, the majority of the Salim-owned shares in its cashcows such as Indofood and First Pacific, were not surrendered. According to Anthony Salim the reason for this was that the shares were pledged as collateral for certain loans. This may have been true – but in any case, it was very convenient, and it allowed the Salim Group to hold on to a few of its most important companies. According to some IBRA employees, this was 'a political process'. One of them stated:

Within IBRA Anthony Salim laid down his cards on the table, but it was still a poker game. He is smart. Asks us for our conditions first. We would like to have the liquid assets, like Indofood shares, but it turns out that there is a condition, that if he has less than 51% ownership, his bank loans become immediately payable. Obstacles arise. Instead he offers Indomobil. Anthony Salim is very tough to negotiate with (IBRA employee).

In September, the Salim Group reached an agreement with the government to pay its obligations of US\$5 billion by transferring stakes in over 100 companies.⁴¹ Anthony Salim and a few other tycoons arranged the transfer by signing a Master of Settlement and Acquisition Agreement (MSAA) with the government. IBRA employees, who had negotiated with various tycoons at the time, claim that the Salim Group was co-operative and the most professional. The administration of its companies was excellent, which was the reason that the transfer took place in such a short period of time.

They have centralised financial control, a team of maybe 100 people work on the holding level. When we took over the assets it was easy to get the data, they were easily available at Salim because of their centralised financial system. ... They have grown so big only because of this way of running things (IBRA employee).

Salim is known to keep very good records, very detailed records. This is the reason why IBRA was able to acquire and dispose of the Salim assets in such a short period of time – it was because of the thoroughness of their data. Besides the case of the sugar plantation, the figures provided by Salim were basically quite accurate (IBRA employee).

In 2000, it appeared that Salim family (and other conglomerate owners) assets surrendered were worth much less than the promised value. Meanwhile, Anthony Salim agreed to pledge more assets.⁴² Enemies of the group described it as ‘theft’. A former minister interviewed for this study, for example, noted that:

They transferred companies worth 53 trillion rupiah. But when these assets were audited again, the value of them was only 20 trillion, so we are talking about theft here. But the Salim Group was one of the most co-operative groups. Others were far worse. Now these Salim assets are with the government, with IBRA. What solution they took was also vague. The government’s losses were huge. If we had a choice it would be better not to have this type of conglomerates in the future.

In July 2002, it was agreed that the Salim Group had to pay IBRA an extra US\$107 million (or 960 billion rupiah) for misrepresenting asset values.⁴³ These reports as well as the interviews show that their involvement with IBRA was a process of continuous negotiation – a game of give and take played not only at IBRA level, but also at the

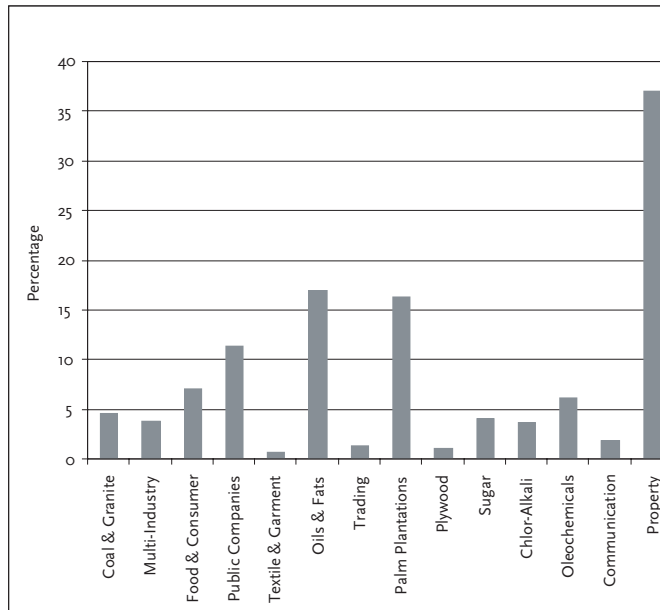
highest political levels. The Salim Group wanted to have a document stating that they fulfilled their obligations by paying off their debts, the so-called Release & Discharge (R&D) document. According to an IBRA employee:

While the asset disposal was progressing, the Salim Group had in the meantime, on another level, been working towards the R&D document. Surprisingly, the five names on the list to obtain this release and discharge document included two small debtors and Anthony Salim, Sudwikatmono, and Risjad – the three Salim Group owners. There is political activity at another level. Anthony Salim has connections with IBRA chairman and with various ministers, etc. as well (IBRA employee).

Much of what has happened has not been transparent until now, but the interview results show an interesting dual image of the Salim Group. From the side of the former ministers interviewed, the Salim Group is portrayed as immoral because of their attempts to gain as much as they can and to leave their debts behind for the government to pay; while IBRA picture was that of a group of very smart and respected businessmen who were ‘squeezed’ by politicians because they were the most co-operative.

Following the agreement with the Salim Group, a special company named *PT Holdiko Perkasa* was established under IBRA to receive, manage, and sell the shares and assets of 107 Salim companies on 14 December 1998. Among the transferred shares was a majority stake in the publicly listed company Indomobil (72.63%) and smaller stakes in Indocement (13.2%), Indofood (2.5%), Astra International (24.27%), QAF (20%), and First Pacific (5%). Apart from the 13.2% stake of Indocement held by Holdiko, IBRA owned a further 6.6% and the government was also a shareholder, owning 26% of the company. Therefore, Indocement was then fully controlled by the government. Meanwhile, Salim family managed to maintain control of First Pacific.

The remaining 89% of the value came from private companies. These included palm plantations; oils and fats; sugar; coal and granite; plywood; television; textiles and garments; chlor-alkali; oleochemicals; food and consumer products; trade; multi-industry; and property. The industry composition of these companies in terms of value is shown in figure 4.4.

Figure 4.4 *Salim Assets transferred to Holdiko Perkasa, % of total value*

Source: Holdiko Perkasa Memorandum 1999, p. 7 ⁴⁴

4.5 Salim Asset Disposals

BCA Bank was declared solvent by the government on 25 April 2000, and IBRA listed the bank through an initial public offering of 22.5% of IBRA's total shares on the Jakarta Stock Exchange on 31 May 2000.⁴⁵ The Salims' stake in the bank had been taken over by the government except for a 7% share while a new management had been installed with the task of restructuring the bank. Surprisingly, a few of the new bank executives came from Indomobil, another Salim company. The result of the IPO – proceeds worth 109 million dollars – was considered disappointing.⁴⁶ An IBRA employee remarked:

The Salim Group was unable to get back Bank Central Asia. Anthony Salim was not allowed to participate in the bidding process because it was too political. Too bad because otherwise the government could have probably gotten a higher price for BCA (IBRA employee).

Under the leadership of Scott Coffey Holdiko Perkasa swiftly started to sell the assets under its management to investors. According to inter-

views with IBRA employees, the process promised to be relatively quick because of the professional management of the Salim Group, and its adequate financial administration of the companies transferred. After some discussion in the government, it was agreed that the former owners could not buy back their assets for the next two years.

In 1999 and 2000, several disposals took place. In the first quarter of 2001, the total proceeds amounted to approximately US\$1 billion. Shares in listed companies were sold and the private companies were disposed of by means of tender processes. The stakes in those companies that were joint ventures with foreign partners were mostly sold to the partners. Several companies were acquired by foreign investors, such as the palm plantations, which were bought by Guthrie from Malaysia and a stake in Astra, the largest Indonesian automotive company, which went to a consortium led by a Singapore company (see table 4.3).

4.6 Leftovers and Asset Shuffles

The strategy of the Salim Group during this period was to focus completely on fire-fighting and dealing with its debt problems with the banks and the Indonesian government. As many companies started to post losses, the growth strategy of 1994-1997 was reversed into one of shrinking, restructuring, and selling.

However, the Salim family did not abandon its debts (as APP, a large listed company belonging to Sinar Mas Group, the second largest Indonesian conglomerate, did) and negotiated as smartly as they could to fulfil the demands of both the government and the creditors. In the process, they handed over large parts of the Salim empire, while they managed to hold on to a few of their most profitable assets in Indonesia (i.e., Indofood) as well as some non-Indonesian companies.

Besides those companies transferred to the government, the Salim Group also tried to sell off their non-core assets outside Indonesia. Apart from Hagemeyer, which has already been mentioned, other assets sold included property and supermarkets in Singapore.⁴⁷ The Salim Group had several investments in Singapore. They initially tried to sell a 23% stake in United Industrial Corporation (UIC) to a company named HKR. After that deal fell through, they finally sold the stake to the JG Summit Group from the Philippines for an estimated US\$194 million.⁴⁸

Besides selling off their assets, there were also internal changes within the group that were meant to raise money or shift control, for example to bring one Salim company under the control of another, or to merge one Salim company with another. A recurring theme was that

Table 4.3 *Assets Disposals by Holdiko in 1999 and 2000*

<i>Company Name (Shareholding)</i>	<i>Product</i>	<i>Buyer</i>	<i>Proceeds</i>
PT Pacific Indomas Plastics Indonesia (50%)	Polystyrene	Dow Chemical Company (JV Partner)	US\$ 4 million
PT Indofood Sukses Makmur (2.5%)	Food	Market Placement	US\$ 38 million
PT Standard Toyo Polymer (49.3%)	Polymer	Tosoh Corporation and Mitsui Co. (JV Partners)	US\$ 15 million
PT Astra International Tbk. (22%)	Automotive	Cycle & Carriage Consortium	US\$ 177 million
Wisma BCA	Property	Keppel Land	US\$ 29 million
Karimun Granite (17.25%)	Granite	PT Pendawa Sempurna	US\$ 2 million
QAF Ltd (19.44% + 4.76% held by IBRA)	Food & other	Market Placement	US\$ 20 million
Salim Oleochemicals Group	Natural fatty alcohol	Bhakti Investama Group consortium	US\$ 127 million
Indomilk Group	Dairy products	Bakti Maju Bersama Abadi (JV Partner)	US\$ 42 million
PT Indomiwon Citra Inti	MSG	Daesang Corporation (Joint Venture Partner)	US\$ 9 million
Mosquito Coil Group (100%)	Mosquito coil	Reckitt Benckiser Plc	US\$ 63 million
Salim Palm Plantation	Palm plantation	Gumpulan Guthrie Berhad	US\$ 375 million
PT Indocement Tunggal Prakarsa Tbk. (13.2 + 6.6%)	Cement	Market Placement	US\$ 63 million
First Pacific Company (5% + 4.9% by IBRA)	Various	Market Placement	US\$ 76 million
Total			US\$ 1,040 million

Source: Holdiko, 2001. All figures have been converted to US\$ using the end-of-year rupiah rate of 2002⁴⁹

these asset shuffles usually did not succeed because of objections from creditors or minority shareholders. When the Salims tried to transfer Indofood out of the country, it was finally bought by First Pacific, another Salim Group company. The Salim Group sold most of its shares in Indofood to First Pacific at a discount but maintained control (by virtue of their majority shareholding in First Pacific). The sale of the shares was done to transfer Indofood's ownership abroad, but the Group also converted its shares into much-needed cash. Similar transactions of shifting company ownership were planned in Singapore with QAF. In 2000, QAF announced that it would take over YinFu International Ltd. edible oil refineries (based in Fuqing, China) and Shanghai

Yinfu Oils and Fats Industries Co Ltd. Due to 'certain legal and regulatory issues' the agreement was later annulled.⁵⁰

A number of transactions suggested that the Salim Group was preparing for a comeback. The QAF shares sold by IBRA were bought back and the company remained under Salim control. In May 1999, Indomobil's debts to Bank Central Asia were assumed by the Salim family, by means of issuing bonds to the Salim family which could be exchanged for shares in Indomobil after three years.

Furthermore, Indocement was special because it was the only company in which Liem Sioe Liong maintained a position on the board, which probably indicated that the Salim Group was eager to hold on to this company. By 1998, when Indocement nearly collapsed under its debts, Anthony Salim had already found a partner for the company. Initially, Anthony Salim came to an agreement with the German multinational Heidelberg Cement Group to share ownership, but the government prevented this deal by forcing the Salims to hand over control of their company Indocement. A manager of Heidelberg Cement Group, who purchased shares of Indocement said:

The government finally told me, we are now in control, and even though we know you have a deal with Anthony Salim, we don't want you to enter into a 50/50 partnership with him, because he is no longer very much liked in Indonesia. Make it a minority share. I told them I needed a local partner with knowledge. So, finally I ended up, against my wishes, buying 65% of the company, with Anthony Salim owning 13% (Heidelberg Cement manager).

I will tell you a story about Indocement. Two days before IBRA opened the bidding, the market was reporting that Heidelberg Cement was interested. And that Heidelberg already had an agreement with Salim in Hong Kong. A back-to-back arrangement. So, we contacted Heidelberg's management and told them that if this was true, they would have to pay a fine. They responded by telling us that they had a 50/50 agreement, where Salim would manage it. I told Heidelberg that cement is not high technology, and that they can manage it themselves. So they cancelled the deal with Salim (former Indonesian minister).

The government also pressured Salim on other fronts as well, especially those businesses considered 'crony' businesses. A European partner said:

The pressure on the Salim Group became enormous, during that period they feared for their lives. When they had some idea that a Chinese hunt would become reality, they tried to moving everything out of Indonesia. The government was not fond of Salim, and forced them out of our joint venture. ... We did not want to lose the Salim Group's co-operation, and we were unhappy with this development. When you do business in a country like Indonesia you need to find a local champion, who can solve problems when they occur, someone with good ties to the government (Western partner of the Salim Group).

The Asian Crisis forced structural change upon the Salim Group and it ultimately became a smaller and different enterprise. The portfolio ended up consisting of First Pacific, which, in turn, controlled Indofood and PLDT, a major Philippine telecom operator. Moreover, the focus was now completely on Asian markets, in particular Indonesia and Philippines, after it sold off all of its European assets (Hagemeyer).

4.7 Leadership

In the previous chapter I demonstrated that Liem Sioe Liong was in the process of handing over his central leadership role to Anthony Salim. The Asian Crisis accelerated this process because Liem did not return to Indonesia, remaining in Singapore after the May 1998 riots. The very critical negotiations with the Indonesian government were thus handled by Anthony Salim. As is shown in table 4.4, Liem withdrew from all of Salim's boards of executives (except Indocement). Some managers, however, noted that he still played a role in the background, but the decisions – including those involving IBRA – were

Table 4.4 *Board Memberships by Liem Investors and Benny Santoso*

<i>Name</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
Andree Halim	3	3	3	3	2	3	3
Anthony Salim	4	5	5	5	5	5	5
Benny Santoso	3	3	3	3	3	2	3
Djuhar Sutanto	1	2	2	2	2	2	2
Franciscus Welirang	1	2	2	3	3	3	3
Ibrahim Risjad	2	3	3	3	3	3	3
Liem Sioe Liong	4	4	4	4	3	1	1
Sudwikatmono	2	3	3	4	3	2	1
Johny Djuhar	1	1	1	1	1	1	1
Tedy Djuhar	2	3	3	3	3	2	2

Source: Board membership database compiled by the author

now made by Anthony Salim. When it became necessary to make statements to the press, he would send Benny Santoso instead of appearing himself.

The Salim Group had enjoyed close ties with Suharto prior to the crisis, but these ties evaporate during the crisis. With public sentiment running against any company associated with the previous regime, Anthony Salim manoeuvred carefully in this environment. On the one hand, he co-operated with the new government and met its demands (albeit, after tough negotiations). On the other hand, he never betrayed Suharto in public, despite the fact that everybody was rushing to distance themselves from the Suharto family in late 1998.

The policy of many Chinese in Indonesia to turn more to the outside world, which had been the trend in the period prior to the crisis, was reversed. The Salim family largely disappeared from the news, using Benny Santoso only when it was absolutely necessary to explain sensitive strategies such as the shift in ownership of Indofood to offshore. By adapting to the new situation without abandoning their old friends, the Salim Group chose to maintain a delicate balance – and at some points in time it was uncertain whether Anthony Salim would be arrested or not. The following story was told to me by a Salim manager:

During the crisis, we received some information that Anthony Salim was going to be arrested and put in jail. So we went to pray in his office. He saw us and asked ‘what are you doing?’ We said we are praying for you. ‘Why?’ Because we are afraid that you are going to be arrested. To which he responded, ‘If I have to go to jail, I will go, it is my responsibility’. We were surprised, but this was his attitude (Salim Group manager).

At that time, the possibility that the government might completely dismantle the Salim Group with its leaders facing imprisonment was a very real scenario. Anthony Salim himself narrates the story as if the crisis and the new government’s policies were a given. Within this framework, he looked for the best solution for his companies.

We talked to the new, emerging government and asked them several questions: 1. Whether a company like Salim will be allowed to exist in this new environment; 2. Is this going to be a political or commercial and economic solution. If it is a political solution, you can do anything you like, nationalise the companies and put anyone in jail. But we believe it needs to be a commercial solution: the emerging nation will be heavily dependent upon the IMF and the World Bank as well as bilateral support for its economic policies. We believe that that has not changed.

So, we believe a commercial solution is the one necessary for the economy. Secondly, it is not just us. It's a total financial, monetary, corporate crisis. We are one of the problems, no doubt a big one, but one among many. ... So, we talked to the government, about whether this was going to be a commercial solution. Number 1, we have the capacity to pay you back. Now, if you want cash, I don't have it at this time. Number 2, let's define the rules. It's not my rules regarding the total solution for the banking, monetary, and corporate sectors. So, within the rules, let's talk about how the Salim problem and solution fits in. ... When that was established, they have the product of MSA, BPPN. So that is the product of the IMF, government (Anthony Salim).⁵¹

However, other interviews and media sources indicate that the group was clearly in a position to influence at least some environmental factors, so this is only a portion of the story. There were probably plenty of high-level political negotiations behind the scenes, as an earlier agreement with Wahid already indicated. IBRA officials also hinted at negotiations on a higher political level, while at the same time, they indicated that Anthony Salim had focused on the problem and was very pragmatic in his dealings with IBRA.

The new environment had a profound impact on the way the Salim Group operated. Prior to the crisis, visitors would line up to meet Anthony Salim with their business proposals, whereas the office now became very silent. Some IBRA officials thought he had become lonely. The image of a powerful group suddenly changed into that of a troubled group. It must have been hard to swallow.

Indeed, the group's management team (those who headed Indofood, First Pacific, Indomobil, and Indocement) did not abandon the company during this crisis period, trying instead to find a solution to the crisis together. Interviews reveal that some of the management of the companies that were sold (e.g., Indomobil and the palm plantations) joined other Salim companies. As we shall see in the next chapter, however, some of the strategies implemented to save the Salim Group were difficult to deal with for them.

4.8 Summary and Conclusions

Thus, during the crisis period of 1997-2000, the previously favourable political and economic climate turned into an extremely hostile business context for the Salim Group. It suffered from corporate debt, fall-

ing stock prices, and an attack on their bank as well as mob violence directed against the family itself.

Because they were surrounded by fires everywhere, the group decided to adopt a strategy of fire-fighting. New investments ceased because within the context of the political and economic crisis the Salim Group's future remained highly uncertain. Anthony Salim's multi-level negotiations allowed the group to survive the crisis, but not without having to hand over many of his assets to the government. Some other assets outside of Indonesia, such as Hagemeyer, were sold to raise capital.

Nevertheless, the group managed to hold onto several important companies, such as First Pacific and Indofood, to its share of UIC, as well as to some smaller private companies. Its structure was altered and First Pacific, now also in control of Indofood in Indonesia and PLDT in the Philippines, became its key asset. The Salim Group tried hard to hold onto its majority shares in all three of these companies. As a result of the changes, the Salim Group was reduced from an international to merely an Asian conglomerate. Anthony Salim was now clearly in charge and his father Liem Sioe Liong had withdrawn from most of his management Salim Group positions (table 4.5).

Table 4.5 *Summary*

<i>Period</i>	<i>Institutional Environment</i>	<i>Strategic Choices</i>
1997-1999 regime change	<ul style="list-style-type: none"> - anti-Chinese riots and looting create hostile atmosphere for Chinese business - Suharto's regime falls apart - IMF stops protectionist policies - anti-cronyism 	<ul style="list-style-type: none"> - use connections to survive & help Suharto family - focus on solving the crisis - comply with government demands, sell businesses to pay debts - retirement of Liem

5 Axis of Opportunity

Whatever you learned in the last decades,
you'll be able to save because you don't make the same mistake.
And opportunities are now much bigger than the ASEAN tigers.

*Anthony Salim,
CEO & President, Salim Group*

5.1 Introduction

In the previous chapter, the dark years of the Asian crisis were described in which the Salim Group survived the Asian Crisis crisis, if only barely. Leadership had been passed to Anthony Salim, who had to forfeit large parts of Salim's empire in the process of coping with the political and economic crisis in Indonesia.

In 2001, the group took its first steps on the bumpy road to recovery in the context of a modest Indonesian economic recovery and more impressive growth in the surrounding Asian economies. Although the economy showed positive growth figures, the Indonesian investment climate did not improve substantially, with corruption costs remaining high and the institutional context remaining weak.

Despite some internal conflicts within the Salim Group, by and large, a process of buying and buying back commenced. The buy-back preparations were highly controversial. Furthermore, the remaining companies were re-structured and by the end of 2003, the Salim Group was in better shape and looked to be in a position to re-gain some of its lost glory. The Asian Crisis did not lead to a fundamentally different business model for the Salim Group, although some minor elements of the strategy were altered.

This chapter begins with a description of the business context during this period. Within this context the moves of the Salim Group to resume a strategy of growth are described as well as their post-crisis structure and management style, which was increasingly centralised around Anthony Salim, but less focused on Indonesia.

5.2 Business Context

Since 2000, the Indonesian economy has shown more stability and has resumed its growth, albeit at a much lower rate than prior to the crisis (around 3-4% in 2001-2003).¹ These growth rates were not able to absorb the new entrants into the labour market, and were considered too low to actually reduce poverty. Indonesia's recovery from the crisis was much slower than that of the surrounding economies.²

Factors that contributed to this slow recovery were the ever-fragile banking sector, and the fact that the corporate sector was not in a position to initiate new investments while foreign direct investment remained low. In fact, Indonesia recorded net capital outflows; the balance only began to show positive returns in the second quarter of 2003. The bombings in Bali in October 2002 also did little to restore the already low FDI levels.

The corporate sector had suffered tremendously during the crisis and was still in the recovery process. The previously insolvent Salim companies began posting modest profits again while they struggled to lower their debt levels. Indonesian exports performed relatively well, and contributed to the modest economic growth (although mainly due to a few successful commodities), together with private consumption. Generally speaking, export recovery, as with the overall economic recovery, in Indonesia lagged behind that of South Korea, Malaysia and Thailand.³

Indocement, UIC, Indofood and Indomobil had all made some attempts after the crisis to increase their previously negligible exports. This was a logical strategy in view of falling domestic demand, dollar denominated debt and a depreciated rupiah. Despite these attempts, none of these companies significantly increased its exports. Some non-listed Salim companies, for example, the Bulan pig farms were established specifically for exporting to the Singapore markets. Data from Holdiko also show that some private Salim companies were actually world leaders in their sectors and exported most of their products. The larger Indonesian listed Salim companies, however, were never willing or able to export to any significant degree.

Meanwhile, the political environment in Indonesia remained relatively unstable. Wahid, who had won the presidential elections in 1999, came under pressure as a result of various scandals and a generally inconsistent record of policy implementation. On 23 July 2001, Megawati, the vice-president under Wahid and a daughter of the former president Sukarno, was inaugurated president. Despite this change of power, however, there were no major policy changes or improvements in the macro-economic situation. Most people interviewed

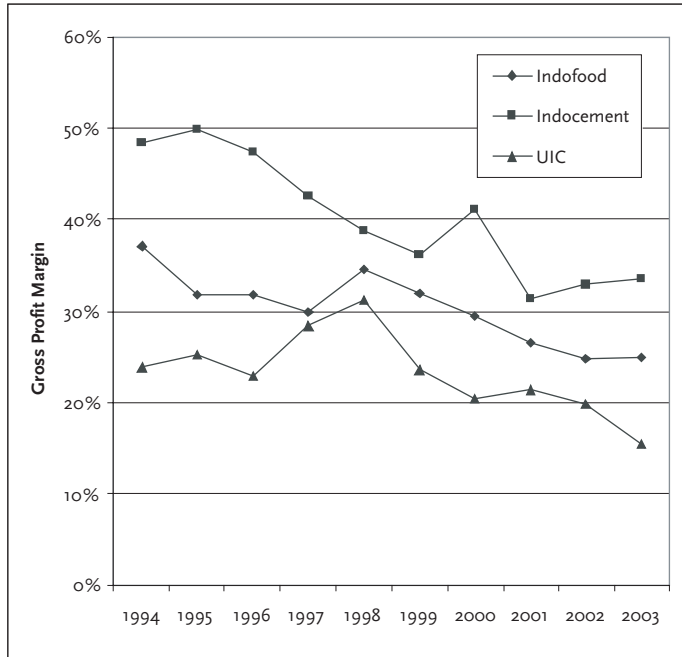
agreed that, in this respect, very little had changed in the Indonesian business context.

One of the main issues that surfaced during the crisis was that KKN (corruption, collusion and nepotism) was not effectively addressed, and, as a result, the institutional environment remained weak while corruption costs remained high. Moreover, the decentralisation policy also brought adverse effects, such as a higher cost for doing business due to new local regulations and actual increases in corruption.⁴ One expert interviewed for this study stated: 'something worse than organised corruption is unorganised corruption'. While another interviewee complained about increased cronyism and corruption: 'Now under Sukarno [President Megawati, daughter of former president] you only have to show that you are loyal by paying up. It's 100% cronyism'. The Salim Group lost a patron in Suharto, but under the subsequent governments they continued to try to influence policies by using their contacts – and, if an interviewee was right – by paying bribes to people close to former-president Wahid.

The effects of measures implemented by the IMF packages during the crisis only became noticeable after the crisis had begun to fade. The protection rate for domestic industries was greatly reduced as a result of these measures. This plus the abolishment of favourable marketing and distribution schemes probably had adverse effects on some Salim operations, such as their flour milling, cement and chemical concerns. It is difficult to demonstrate a direct link between the changes in the regulatory environment and Salim company performance. This link is, however, suggested by interviews with some insiders. The data available in the annual reports of Indofood, UIC and Indocement show that the profit margins of most companies continued to decline (figure 5.1).

During this period we can see declining margins for UIC, a monopoly in alkyl-benzene production protected by an import tariff of 15% prior to the crisis, which was lowered to 5% in 2000. Indofood also showed declining margins, but when the figures are consolidated and include both the noodles and the flour milling businesses (since 1997), it is not clear whether one or both products were the major cause of this decline. Interviews suggest that noodle production faced increased competition from a local group, whereas the Bogasari mills suffered in this new regulatory environment.⁵ Meanwhile, in 2001, as noted earlier, Indocement was taken over by Heidelberg Cement. Indocement showed increased profit margins in the period 2002-2003 because of a specific Heidelberg Cement strategy that focused on improving profit margins instead of increasing volumes. This differed from the Salim Group strategy which preferred to focus on market share.

Figure 5.1 Profit Margins of Indofood, Indocement and UIC



Sources: Annual reports

5.3 IBRA Asset Sales

Since the millennium, the Indonesian Bank Restructuring Agency (IBRA) has increasingly become a source of controversy. Although the sale of Salim assets proceeded rather quickly, the institution's overall asset sales proceeded slowly while at the same time there was a rapid turnover of chairmen.⁶ One IBRA employee noted that: 'IBRA became preoccupied with power. The instinct of Asian bureaucracies is then to slow things down'. As IBRA approached its agreed-to closure date (February 2004), it became evident that the restructuring of the banking sector was not very successful and that the asset recovery was lower than expected.⁷ Some employees at IBRA seemed embarrassed by the 'politics':

Within IBRA, Anthony Salim is the businessman that won the most respect. In fact I saw him many times. Every time we introduce a new policy or a new minister, I had to have a meeting with him and explain the details of the new policies, which was a bit strange. He is an amicable person, very bright, some might

say hyperactive. Work is his life; it is very much a one-man show. He's not a bad guy, not shadowy or anything like some of the other owners. I think he would prefer to avoid politics altogether if possible. He's not much of a lobbyist (IBRA employee).

In the period 2001-2003 it became clear that the Salim Group intended to get back some of its assets. The previous chapter described how IBRA had started to sell off Salim's stakes in joint ventures (which were usually taken over by the joint venture partner) and shares in listed companies. These were the easiest to sell. Moreover, some companies were sold to foreign firms, like the plantations which went to Guthrie in Malaysia. According to Scott Coffey, approximately half of the assets pledged by Salim were sold to foreigners.⁸

But the assets put up for sale in the next wave of IBRA disposals were companies that were more difficult to sell. In 2001, 76 companies were readied for a sell off by IBRA, 28 of which were Salim companies. IBRA required that buyers state in writing that they were not related to the Salim Group, but this was difficult to prove. Indomobil and Indosiar stakes were sold at the end of 2001, almost immediately to be followed by persistent rumours that the Salim Group was behind the buyers.⁹

They got Indomobil back. The government bought the shares at 2700 [rupiahs] a piece, but re-sold it at a quarter of the price to the highest bidder. This happened in 2000-2001. How do I know this? Well, in the deal with Suzuki there was a clause that stated that should the Salim Group pull out as a major shareholder, all loans would immediately become payable. Thus, it was obvious that Salim was behind the buy back of Indomobil (financial analyst).

IBRA had a regulation that the original owners cannot re-purchase their old companies for two years. Now it has been almost one year, so they are preparing now. After two years they are allowed to buy back their old companies. So far they use nominees: companies or other conglomerates. These are paid in the form of shares or something. Salim is quietly re-purchasing some of his old companies such as Indosiar, Indomobil, Indomilk, their shipyard (IBRA employee).

The sale of Indocement was controversial at first. The Salim Group had an agreement with the eventual buyer, Heidelberg Cement Group of Germany, to jointly run the company.¹⁰ However, under government pressure, Heidelberg acquired a majority stake, and swiftly started to

change Indocement's strategy of diversification and began to sell off bits and pieces that were the result of prior diversification, such as its various properties.

The sugar plantations received a great deal of attention, because there were rumours according to interviews with IBRA executives that Anthony Salim was trying to block the sale and was favouring another buyer closely associated with him. The eventual sale to a local conglomerate was an example of a power game for control over the company, where the Salims used various legal manoeuvres to prevent the new owner from successfully operating the sugar plantation. Court cases followed, while another asset sale was also criticised because Anthony Salim intervened.

There was the case of the Mosquito Coil company, where the new owner had a no-competition clause. But Anthony Salim built a factory next door and hired all their personnel. The new owner can sue Salim, but in this country – well you know how it works (IBRA employee).

Take, for example, the case of the sugar plantation, Indolampung. There was a problem because the factory had been sold, but not the land. IBRA initially did not know that there was any land involved because there was nothing to indicate this. When we entered into a due diligence case with the prospective buyer we discovered that the land rights were owned by another company. It was not traceable to Anthony Salim, IBRA could not prove that the land was his. All we knew was the name of the company – Indo-something – and that the people working the land had sold out to the factory, and that the plantation workers' salaries were paid by that company. There was nothing illegal about it, but it serves as an example of how ownership patterns remain opaque. The companies acquired by IBRA were never directly owned by Anthony Salim (IBRA employee).

However, Salim is much better than the others in terms of quality of assets surrendered, speed of co-operation etc. Unlike the others, they only play in the grey areas, like asset valuation, not in written and clear agreements. Other conglomerates used blatant manipulation (financial analyst).

However, these well-publicised cases seem not to be the norm as most sales proceeded rather smoothly without much ado (table 5.1). But the most sensitive case was the one involving Bank Central Asia. IBRA still owned 70% of the bank in 2001. Politically it was a sensitive sale, and

Table 5.1 *Holdiko Asset Sales 2001-2003*

<i>Company Name (Shareholding)</i>	<i>Product</i>	<i>Buyer</i>	<i>Proceeds (US\$)</i>
Indomarco Prismatama (Indomaret)	Retail	Bhakti Investment Management	Unknown
First Pacific (0.8%)	Various	Market placement	9 million
Indocoal	Coal	PT Centralink Wisesa (linked with Banpu Minerals Singapore)	46 million
Indocement	Cement	Heidelberger Cement	116 million
Sulfindo Group	Chemical manufacturer	Durability Enterprise	41 million
Yunnan Kunlene Film Industries (63%)	Packaging/ BOPP Film	Jefflyne Golden Holdings (co- shareholder)	14 million
Salim Rengo Containers (60%)	Packaging	Rengo (JV Partner)	24 million
Gumindo Industri Perkasa (43%)		Ridwan Soeriyadi (co-shareholder)	2 million
Poli Contindo Nusa (49%)	Steel drums	Kerismas Witikco Makmur	6 million
Riau Industrial Estates	TV station	TDM Aset Manajemen	89 million
Yakult Indonesia Persada (51%)	Real Estate	Dwi Sinergi Utama	83 million
Indomobil (72% + bonds)	Health drinks	Yakult (co-shareholder)	7 million
Sugar Group	Automotive	Trimegah (local consortium)	74 million
	Sugar	Garuda Pancaarta Consortium (local consortium)	137 million
Berdikari Sari Utama Flour Mills (93%)	Plantations	ATS consortium	27 million
Bank Central Asia (51%)	Flour Milling		
Metropolitan Kentjana (48%).	Banking	Farallon Capital Consortium	662 million
Total	Property	Berca Indonesia Group	78 million
			1,415 mln

Sources: IBRA, 2001-2003 ¹¹

people spread rumours that the Salims wanted to buy back the bank. High-level politicians were involved and the parliament delayed the sale because of concerns involving future ownership. It was finally decided to sell a majority share of the bank to the highest bidder, either local or foreign. The minister for state enterprises had to reassure the public that he had Anthony Salim's word that he would not participate in the bidding.¹²

Press reports and interviews contradict one another, and it is not entirely clear what actually happened. According to some insiders interviewed for this study, the Salim family maintained a separate company that was responsible for the IT systems for the bank – thus they managed to keep a core function of the bank under its control. Some interviewees thought that, although the Salims may have been involved in the buy-back process, they did not re-gain control of the bank. The con-

trolling consortium was composed of several groups, including a US-based investment fund and the Djarum family from Indonesia.

When the last Salim assets were sold off by IBRA in 2003 the government acquired a total of approximately US\$2 billion, a recovery rate of between 30 to 40%.¹³ Many complained because they felt that the remaining balance would have to be supplied by the Indonesian public. Moreover, the Salims were able to buy back some of their own debt for a much lower price, and some figured that they actually profited from the process.¹⁴

Nevertheless, the Salim Group is generally believed to have been the most co-operative debtor. They repaid more of their debt than other Indonesian conglomerates. As one IBRA employee put it: 'it was such an emotional period. Anthony Salim pulled us through it by just focusing on the problem'. Salim admits that the group has learnt a very hard lesson. Salim thought that one had to: 'Simply face reality. Confront the problems. Never give up'.

By the end of 2002, the government began considering sending a letter to those who had paid off their debts stating that they had fulfilled their obligations. This letter, stemming from the original MSAA (Master Settlement and Acquisition Agreement), would also shield them from future criminal prosecution involving their debts during the Asian Crisis. The initial list of people eligible was composed of three of the Liem investors (Anthony Salim, Sudwikatmono, and Ibrahim Risjad) and two other smaller conglomerate owners, later complemented by Suharto's daughter Tutut. Because it was a very sensitive issue, no government official wanted to risk signing the letter. The letter in the end was approved (but not issued) by the Financial Sector Policy Committee in January 2004.¹⁵ IBRA formally shut down in February 2004, although some people stayed on to deal with administrative issues. The Release and Discharge letter to Anthony Salim was finally issued by IBRA in March 2004.¹⁶

5.4 The Axis of Opportunity

After a few years of coping with the Asian Crisis, the Salim Group began taking its first steps towards renewed growth, albeit not at rates common before the crisis. Interviews reveal that the group's strategy regarding its portfolio changed in three respects: 1. its geographical composition; 2. its industry composition; and 3. its network orientation.

Geographically, Anthony Salim was aiming for a portfolio of companies that was composed of 50% inside Indonesia and 50% outside, thus reducing its dependence on Indonesia, which, however, would remain its most important market. He saw an axis of opportunity in the

Pacific region, between Australia, ASEAN and China. If there was an opportunity to link, for example, Australian expertise in agribusiness with Chinese and Indonesian markets, then a lucrative business can be established. A few steps were taken to realise this strategy. For instance, there was the acquisition of a minority share in the listed Australian company Futuris. Futuris had a wheat division, and Indofood was one of its largest wheat clients because of its noodles. As a consequence of the acquisition of this minority stake, Anthony Salim was also appointed to the Futuris board of directors in March 2003.¹⁷

In China, the group paid US\$500 million for a 45% stake in the COSCO property group.¹⁸ According to Anthony Salim, these acquisitions fit in with the Salim Group's strategy establishing an axis between Australia, ASEAN and China. This 'axis of opportunity', will mean that the Salim Group will be less a product-based company, and, instead they will use their expertise and capital to invest in any lucrative businesses in the region, be it agri-business, cement, or other activities.

We have to transform ourselves to manage our resources. To transform our assets. It does not mean money, you see, it is whether we have the contacts. We believe we can operate in different markets (Anthony Salim).

With regard to industry composition, the Salim Group wanted to move away from too many smaller companies, preferring instead to focus on a few sectors they are more familiar with. This objective had already been achieved as a result of the crisis, since most of their 'bits and pieces' were handed over to IBRA, while the Salims maintained control of a few of the larger businesses. Most of the new investments involve the food, telecom, media, and property sectors, which are all industries with products or services for the masses.

The Salim Group perceived its key competence as mediation with extensive knowledge of local markets. Anthony Salim said he wanted Salim to remain a broadly oriented conglomerate:

Big and small companies they have their place. If you are big, you become a component. If you are a system, components become your friends. It is like a rubber belt. Even if you have a big wheel it does not move without a rubber belt. So you have to choose, and we want to be a rubber belt, it is easier (Anthony Salim).

The third factor was its network orientation. The importance of its political connections seemed to fade. After the crisis, the Salim Group did

not resume its activities involving political connections, and apparently no longer had the desire or ability to establish relationships with new power brokers. One person close to the group said that Anthony Salim did not get along with Suharto's children, which had already led to some alienation between Suharto and the Salim Group even prior to the crisis.

Furthermore, the group was now less interested in the ethnic Chinese networks, which Anthony Salim considered outdated.

Question: What is the role of Chinese networks in the region for the Salim Group?

Only in the early days, when Anthony came back from school. When we did not have the relationship with the international bank. Since early 90s when the group developed, we have access to more and international institutions. Then everything is basically open for us, in terms of capital. ... Of course we know the business from the region. They are just businessman friends, connections do not really help. We may do something with non-Chinese in the Philippines. Business is Business. ... Anthony Salim is not interested in that. The second generation usually does not regard this as important (Salim Group manager).

Question: How about the Fujian investments?

Of course, for the first generation like Anthony's father they have a sense of attachment to their home country. Of course the first investments, 50% based on non business motives – even if it is not profitable you can do something good for the people. We invested in a shoe factory for employment and so on. Anthony does not care because he was born here. Of course we are investing in China, but not because his father came from China. We believe that China is a very good prospect and can offer us a business opportunity that we can develop. It does not matter in Fujian. From a purely commercial perspective in fact we believe that Fujian is not the place to do business. It is Shanghai, Beijing. A lot of new activities are done outside Fujian (Salim Group manager).

Within the Chinese community there has been a paradigm shift, a tendency to make connections through cross-holdings. However, the Salim Group still follows the old paradigm of autocratic leadership. ... Their strategic alliances are more based on busi-

ness, not on cross-holdings (second-generation leader of another ethnic Chinese conglomerate).

Liem and Kuok are clan members and good friends. In Asia, the big ones help the other big ones not so much that the big ones help the small ones. I mean clan is more about the region than the surname. Many have risen above the clan networks, Liem being one of them. Because people started to study abroad and also because of structural changes, the clans have lost their influence in Indonesia, but not in Singapore and Hong Kong (person familiar with the Salim Group).

The relationships with their long-time partners the Djuhars also became increasingly strained, and Anthony Salim seemed to prefer dealing with Western companies. As a result, the network orientation of the Salim Group changed and the ethnic as well as political connections, which had already decreased in importance prior to the crisis, were now negligible compared to their contacts with foreign partners. Anthony Salim believes his strategy was now less based on connections:

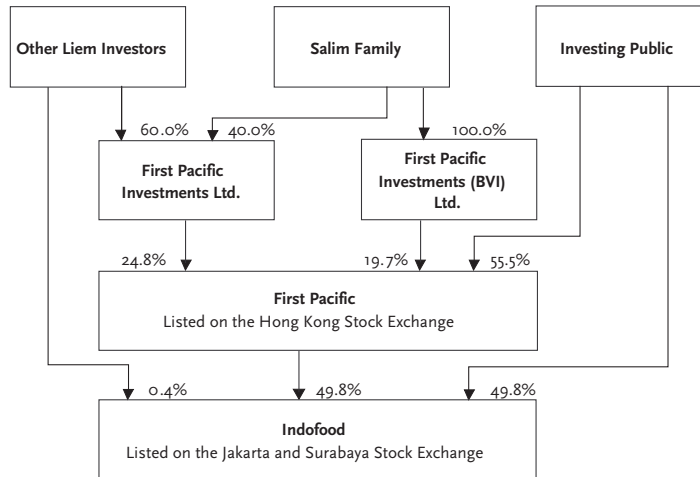
During Suharto's time we thrived in that constellation. During crisis time, when I worked with the IMF and the World Bank here, we adapted ourselves, we became more market oriented. Post-IBRA, we are thriving, we are also adapting to a new market situation (Anthony Salim).

Despite a little more focus and less dependence on Indonesia, the Salim Group apparently had no intention to change its basic business model – that of a family controlled conglomerate, focused on producing mass products locally for various markets.

5.5 The Salim Group Structure and Control

After the crisis, First Pacific owned the two largest remaining companies: Indofood and PLDT. As was discussed in previous chapters, ownership was basically organised as a pyramid structure and continued this way (see figure 5.2).

Other companies, such as QAF in Singapore and PLDT in the Philippines, showed similar pyramid-like structures which ensured full control over the company with limited cash flow rights. The holding company always remained private.

Figure 5.2 *Ownership and Control of Indofood in 2002*

Source: Annual reports of First Pacific and Indofood 2002¹⁹

I don't believe in the short time that the family holding will be changed to a listed holding in the future, because there is no necessity. And, number two, a non-listed holding is more flexible to embark on what we want to do. (Anthony Salim)

There were now some exceptions to the majority ownership principle. Majority ownership of Indocement, for instance, was sold to Heidelberg Cement. Despite losing control over the company, Salim was able to retain a minority stake of 13.5%, and both Benny Santoso and Ibrahim Risjad remained board members. This could indicate the Salim Group's long-term interest in the company. A 7% stake in BCA was also retained. The Salims sold part of their stake in Indomobil, a company in severe financial trouble at the time, to partner company Suzuki, with the option to purchase it back in subsequent years. Despite the fact that they now had minority stakes in the various Indomobil companies, the company remained part of the Salim Group and its core management remained unchanged. One manager who was interviewed for this study admitted that Indomobil was still considered part of the Salim Group:

After the crisis it's complex. Anthony Salim has nothing and has everything. He sold bits of everything. Officially, Indomobil

is no longer part of the Salim Group, but informally it still is (Salim Group manager).

In short, the Salim Group maintained its strategy of full control over its remaining companies after the crisis by means of a pyramid structure, although there were some exceptions. The control mechanisms which consisted of internal weekly reporting systems and majority control by the Salim family were complemented by external control by minority shareholders. Indocement and Indomobil, both previously controlled by IBRA, were now minority owned by the Salim Group, however, Indomobil was still considered part of the Salim Group.

5.6 Leadership

From the period 2001-2003, a number of interesting leadership-related issues arose. The first was related to the development of companies under IBRA. IBRA installed a number of its executives on the boards of various Salim Group companies, such as Indocement, Indomobil, and Indosiar. As these companies were no longer majority-owned by the Salim Group, the Salim family withdrew from these boards of directors. However, in those companies the Salim Group planned to buy back, such as Indosiar and Indocement, management saw no major changes, and in the two above-mentioned cases, Benny Santoso retained his position in the board. In 2003, Santoso held more board positions (within companies in my database) than Anthony Salim (table 5.2). Interviews indicate that a similar thing happened in the private companies: if management remained unchanged, it probably meant that the Salims were still in control, or planning to regain control in the near future.

Anthony Salim's departure from various boards did not mean that his central position was waning, on the contrary. In the previous chapter we have seen that the Asian Crisis triggered the rapid departure of Liem Sioe Liong from most company boards. Andree Halim also withdrew from his Indonesian board positions. It became clear that Anthony Salim was in full charge – he was personally negotiating on behalf of the family with creditors and with IBRA as evidences by one of IBRA reports (and supported by interviews):

On July 11, 2002, IBRA, represented by the Deputy Chairman of AMI and the Division Head of PKPS-1, has met with Salim Shareholders namely Soedono Salim, Anthoni Salim, and Andree Salim (SS), represented by Anthoni Salim (*IBRA Monthly Newsletter*, July 2002).²⁰

Table 5.2 *Board Memberships Liem Investors and Benny Santoso*

<i>Name</i>	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Andree Halim	3	3	3	3	2	3	3	0	0	1
Anthony Salim	4	5	5	5	5	5	5	3	2	2
Benny Santoso	3	3	3	3	3	2	3	3	2	3
Djuhar Sutanto	1	2	2	2	2	2	2	1	1	1
Franciscus Welirang	1	2	2	3	3	3	3	2	1	1
Ibrahim Risjad	2	3	3	3	3	3	3	3	3	3
Liem Sioe Liong	4	4	4	4	3	1	1	0	0	0
Sudwikatmono	2	3	3	4	3	2	1	1	1	1
Johny Djuhar	1	1	1	1	1	1	1	0	0	0
Tedy Djuhar	2	3	3	3	3	2	2	2	2	2

Source: Board members database compiled by the author

In 2003, Andree Halim launched a take-over bid for QAF and joined the board of directors of this small Singapore-based company. Interviews also indicate that he was in charge of some of the factories in Fuqing. He also became board member of Peaktop International Holdings Limited, a small company listed in Hong Kong, which, according to one of the interviews, was run by his wife.²¹ After the crisis, Andree Halim received his own corner of the family business group.

The major share of the empire, however, was run by Anthony Salim. The structured co-ordination between the companies by means of companies like Inti Salim Corpora changed. Inti Salim Corpora was no longer being used and the number of financial experts working directly for Anthony Salim declined. Several interviews indicate that any cross-company co-ordination now went directly through Anthony Salim personally, making the group more and more dependent upon him. Managers noted that after the crisis that pre-crisis 'family' feeling was replaced by a situation where each manager was just running his/her own business.

Now the synergy is not any more there, people are more working for themselves rather than helping each other. Now they try to build their own kingdoms. For example, a competing company [in my field] was set up. I told Anthony Salim I like to compete, but they are so small, so it's easy. After 2 years their accumulated losses were quite high and I feel bad because I use the group's money to kill these competing companies that are also group members (Salim Group manager).

During the crisis, none of the top managers departed, but after the crisis, several internal conflicts or changes arose within top management.

Angky Camaro resigned from Indomobil and took a top position in Sampoerna. Eva Riyanti, who had already occasionally revealed some disappointment in Indofood's strategy to the press, ended up in a conflict with Anthony Salim and resigned in December 2003.²² She was replaced by Anthony Salim himself. Manuel Pangilinan, responsible for First Pacific, also had a clash with Anthony Salim. Apparently the Salims wanted to sell PLDT, the Philippines telecom company, and Pangilinan successfully blocked the deal.²³ While Manuel Pangilinan had been chairman of the board he had to relinquish this position to Anthony Salim to stay on as CEO. Anthony Salim's second man Benny Santoso was also appointed to the board after the COO and finance director resigned during the conflict.

These facts and evidence from interviews shows that the Salim Group was still very centrally managed by Anthony Salim, who apparently actively intervened in many of its businesses.

Every week we report on sales to Anthony Salim, he likes to concentrate on market share. He is very detailed. One day he asked for the profitability of each product. So we submitted a pile of papers, and he actually read it all. He even pointed out that product such and such was not profitable. He has very good and creative ideas and made insightful remarks (Salim Group manager).

It is very difficult to get along with him. His personality makes him want to meddle in things. Anthony Salim is energetic, intelligent and has a dazzling breadth of knowledge; the level of detail is very high. He has the illusion that he knows enough to run all businesses (person close to the Group).

Thus, as the empire had grown a lot smaller, Anthony Salim's formal and informal grip on the empire strengthened, making the group more centralised in its decision-making structure. His style also led to some conflicts internally, which caused some of the best CEOs to leave the company.

5.7 Summary and Conclusions

Thus, after a period of fire-fighting, the Salim Group again embarked on a growth strategy, this time confined to the Pacific region. The Indonesian business context eventually changed from hostile to slow growth and recovery, and most of the earlier problems, such as lowering debt and dealing with IBRA, were winding down. The remaining

Salim companies, particularly those under First Pacific, started to recover, although margins remained under pressure.

Within Indonesia, most of IBRA sales had been completed and those companies sold to foreigners were now beyond the Salim Group's control. However, it also made preparations to buy back a few of the former assets, such as Indomobil and Indosiar. The Salim family retained a minority stake in Indocement, now majority owned by a German cement maker, which was an unusual strategy since most of its companies were majority owned through a pyramid structure.

The post-crisis structure and strategies of the Salim Group were not that different from the situation prior to the crisis, except for the fact that there was less emphasis on Indonesia and a more selective approach to the choice of industries. The group remained active in a variety of industries that supplied products or services to the masses, on the premise that contacts were more important than industry knowledge. It attempted to integrate its operations across the region, most notably the axis that ran between Australia, ASEAN, and China, where it planned to serve as a mediator.

Anthony Salim seemed – consciously or unconsciously – to disrupt many of the previously strong relationships with ethnic Chinese groups and his own CEOs. The Salim Group's leadership underwent several changes, most notably Anthony Salim's consolidation of power as the group's central leader. The old structured way of achieving synergy was replaced with a more informal co-ordination mechanism (table 5.3).

Table 5.3 *Summary*

<i>Period</i>	<i>Institutional Environment</i>	<i>Strategic Choices</i>
2000-2005 refocusing the portfolio	<ul style="list-style-type: none"> - continuation of IMF liberal economic regime - tariff barriers and protectionist policies now largely abolished - new type of politico-business alliances with new power-holders 	<ul style="list-style-type: none"> - refocus business, more emphasis outside Indonesia - Asian multinational player - compete for maintaining market share

6 Evolution of the Salim Group Strategy

6.1 Introduction

The previous four chapters described in detail the development of the Salim Group, in particular its strategy before, during, and after the Asian Crisis. Whereas, prior to the crisis, the Salim Group had shown a strong growth pattern and attempted to achieve synergy between the portfolio of diversified companies, during the crisis growth ceased and the group declined while it had to cope with an extremely hostile environment. It was only after the crisis that the Group began a policy of new investments, while modifying some minor aspects of its strategy and maintaining its domestically oriented, diversified strategy. In this chapter, key elements of the case are brought together and placed in a long-term perspective.

Without referring to theoretical concepts, the evolution of the Salim Group strategy within its context and covering several decades is presented in the first section. It summarises some of the salient aspects of the narrative from the previous chapters. I emphasise the two themes identified in the introduction: business networks and flexibility. The second section deals with the third theme, the dichotomy between a relationship model and a market-based strategy. First, the Salim Group strategy is visualised in these terms using an interpretative approach and secondly, by using coding procedures. The last section deals with the co-evolution of the Salim Group and Indonesian institutions, focusing on mutual influences between the two.

6.2 Corporate Strategy of the Salim Group

After recounting the history of the Salim Group from its inception until after the Asian Crisis, it is now possible to present an overview of the institutional context of the Salim Group as well as describe what strategic choices the Salim Group leadership has made over time (table 6.1).

The Salim Group started out small and then diversified to cope with a chaotic business environment. It first had to adapt to a colonial

Table 6.1 *Strategy of the Salim Group over time*

<i>Period</i>	<i>Institutional Environment</i>	<i>Strategic Choices</i>
1938-1945 Genesis	<ul style="list-style-type: none"> - Chinese enjoyed strong position in trading - business context for private business strictly regulated - opportunities in smuggling/trading 	<ul style="list-style-type: none"> - small scale trading of various products - close cooperation with family members
1945-1957 Army relations	<ul style="list-style-type: none"> - difficult business environment - demand for basic products - important role of the army - start of a national economy 	<ul style="list-style-type: none"> - initial small-scale diversification - manufacturing of basic products and banking. - supplying goods to the army
1957-1965 Diversification	<ul style="list-style-type: none"> - nationalistic political environment - slow economic growth - rising power of the army in business 	<ul style="list-style-type: none"> - trade and manufacturing of basic products - diversification and expansion
1966-1972 Capitalising on Suharto's New Order	<ul style="list-style-type: none"> - economy improving - army most powerful political actor & very active in business - opening up for foreign investment and international trade - import substitution & protection of local capitalists 	<ul style="list-style-type: none"> - linking up with Suharto to develop economy - evolving conglomerate as new business opportunities arise, e.g. import substitution industries
1972-1980 Institutionalising the business	<ul style="list-style-type: none"> - flourishing economy - industrialisation - business opportunities exist, especially when linked to Suharto or army 	<ul style="list-style-type: none"> - government connected business - supplemented with international businesses - design the conglomerate: institutionalise & professionalise
1981-1993 Institutionalising the business	<ul style="list-style-type: none"> - oil crisis and currency depreciation - import substitution efforts halted - export promotion policy - reduced cronyism 	<ul style="list-style-type: none"> - build international businesses - expand local businesses - work with government in order to resolve losses in various industries
1994-1997 Rapid growth	<ul style="list-style-type: none"> - continuation of liberal economic policies - protection of selected businessmen - activity in connection with Suharto as his succession is discussed - more crony capitalism - FDI inflow 	<ul style="list-style-type: none"> - continue internationalisation - restructuring & vertical integration - hiring professional managers - small businesses with Suharto's children - fast growth of existing & new businesses, increasingly with foreign partners
1997-1999 Regime change	<ul style="list-style-type: none"> - anti-Chinese riots and looting create hostile atmosphere for Chinese business - Suharto's regime falls apart - IMF stops protectionist policies - anti-cronyism 	<ul style="list-style-type: none"> - use connections to survive & help Suharto family - focus on solving the crisis - comply with government demands, sell businesses to pay debts - retirement of Liem
2000-2005 Refocusing the portfolio	<ul style="list-style-type: none"> - continuation of IMF liberal economic regime - tariff barriers and protectionist policies now largely abolished - new type of politico-business alliances with new power-holders 	<ul style="list-style-type: none"> - refocus business, more emphasis outside Indonesia - Asian multinational player - compete for maintaining market share

regime, then Japanese occupation, a colonial war, and finally an emerging national state. In its initial stage, it focused on contacts within ethnic Chinese circles and its activities were mainly imports and small-scale manufacturing for the local market. Even if the group was active in exports, its major companies were producing for the domestic market.

The domestically oriented business model was completely different from that of other large ethnic Chinese companies from the colonial era. Back then, ethnic Chinese businesses developed a business model based on producing commodities for export, such as rubber and sugar. For example, the Oei Tiong Ham Concern, the largest ethnic Chinese group in Southeast Asia during the late-colonial period, became successful with this export strategy. Liem, on the other hand, was not shaped by the colonial export economy – probably because his business was still too small and too local when the colonial period ended – and instead he focused on domestic buyers.

When Sukarno assumed power, Liem aligned himself with the army, which at the time was a major player in the business world. Sukarno was not interested in private business and he instituted poor economic policies resulting in economic decline. Moreover, he implemented policies that discriminated against Chinese businesses. In this hostile context, Liem achieved some stability as a supplier to the army. During this time, Liem was already looking for suitable partners, and found both ethnic Chinese and political connections in the form of a Sukarno family member. During his period as a supplier for the Diponegoro army division he was also introduced to Suharto, who was to succeed Sukarno after a bloody regime change. Operating under the motto ‘all business is good’ Liem began diversifying from the very beginning, which has remained a characteristic of the Salim Group ever since.

Suharto needed legitimacy to remain in power, which he soon realised lay in improving the economy. Ethnic Chinese partners, on the one hand, were perfectly positioned to help Suharto in this respect. Several ethnic Chinese businessmen were competent, willing, and familiar with a crony system through their contacts with the army. On the other hand, they formed a despised minority which stood no chance of gaining political power. As they were easily made scapegoats for Indonesia’s problems and discriminated against they did not form a political threat. The continued hostility against the Chinese minority made them vulnerable partners, and easier to control. Although several ethnic Chinese crony capitalists emerged in the early days of Suharto’s rule, the Salim Group evolved into the largest and most successful group associated with Suharto. In this situation, competition also took place, but competition for favours rather than competition for market

share. In this crony competition process, Liem eventually emerged as the most successful player.

The group managed to evolve into a major player only during the Suharto period, and consistent with the opportunities of the time, it developed a range of businesses that produced goods for the domestic market. As Suharto facilitated unprecedented economic growth, the buying power of Indonesians increased, and there was a growing demand for Salim products, which were protected from outside competition via high tariffs. It is this local-for-local business model that continues to characterise the Salim Group up to the present day, both in Indonesia and abroad. Suharto's goal was to modernise and industrialise the country, for which he needed capable businessmen. Both relational and business skills played a role in both the rapid growth of Liem's businesses and in the relationship between Liem and Suharto.

During the Sukarno period, Liem began seeking partners for his expanding ventures, and carefully chose them to incorporate people from his own ethnic Chinese circles, political circles, and indigenous businessmen. While during Sukarno's leadership he had links to a Sukarno relative, it was under Suharto's leadership that Liem included one of Suharto's family members in his circle of investors.

The group received favours such as access to credit and special licenses in various sectors and the ability to set up various industries producing commodities that used to be imported. The first phase of import substitution in Indonesia was aimed at industries that were not very capital intensive or high tech. The first of these included the wheat, cement, automotive assembly and textile industries. Once the group had surpassed its peers, it developed the resources and the market strength to expand and professionalise its empire. Although it initially relied on ethnic Chinese networks, the Salim Group increasingly found Western and Japanese partners for their industrial ventures supplying technology or capital. In the second phase of import substitution, in which the Salim Group participated along with the government and Western partners, more capital intensive industries such as steel were targeted.

When Anthony Salim joined the business it was already large and intricately involved with Suharto. He tried to balance the risks associated with this political alliance and he attempted to professionalise the business by involving more non-family members as managers. Moreover, he saw the need for building businesses outside of Indonesia, many of which were also producing for local markets in Singapore or China. The anti-Chinese riots of 1974 must have justified his fears and his determination to become less dependent upon Indonesia.

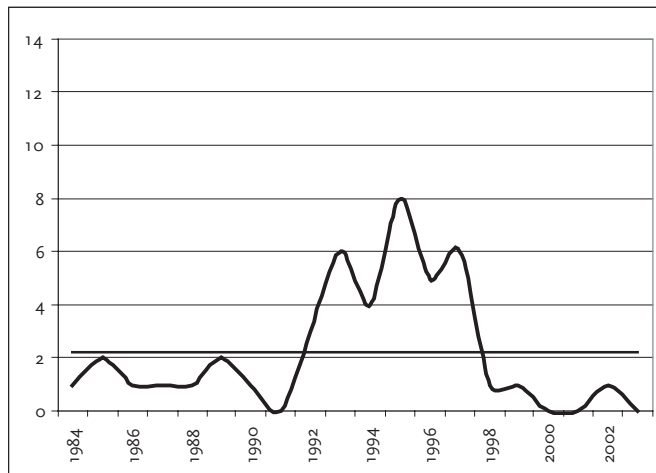
While the founder of the business, Liem Sioe Liong, laid the foundations for success with his ability to select the right partners, and his

adaptation to environmental conditions at the time of founding the group, his son tried to focus the Salim Group on modernisation by making the business less dependent upon relationships with politicians. Anthony Salim probably saw the risks in the Suharto alliance and he tried to balance those risks by making the businesses less dependent upon Suharto's favours. He also mitigated the risks of the Suharto alliance by investing in international businesses and he also restructured the group into divisions, a popular concept at the time.

Even though he tried to move away from government contracts, there were still many interconnected business ventures (figure 6.1 indicates the number of political partnerships and a trend line). The government bailed out the Salim Group in the steel and cement industries, clearly showing the preferential position of the Salims in Indonesia. Many of their companies enjoyed a certain degree of protection via special licenses or trade barriers. But the number of new crony businesses was indeed small compared to non-crony partners (figure 6.4).

Anthony Salim's efforts in a way ran contrary to the Indonesian context, however, which showed waves of increased cronyism, especially in the years prior to the Asian Crisis. While foreign investors flocked to the country, Suharto personally divided many licenses and special conditions, which ultimately benefited his family and friends. One could say that the strategy the young Salim was implementing worked against the business climate, and that probably made their transition slower, and fall backs to crony businesses more frequent. After all, the

Figure 6.1 *Number of New Activities with Political Connections*



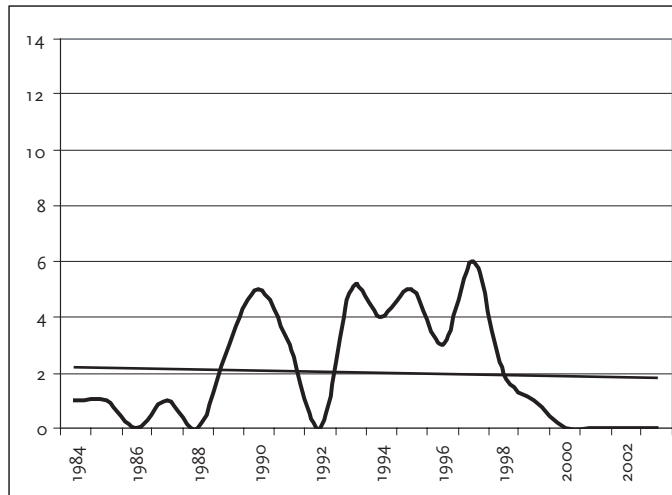
Source: Coding Results¹

Salim Group was immensely successful and a preferred partner for many domestic and foreign businesses. There was no immediate necessity to detach themselves from the Suharto government, which was still firmly in power at the time. Even though the Salim Group may have tried to move away from their crony connections, it did little to change their image in the eyes of the public, which interpreted the business of the group as an extension of the Suharto family.

Liem had already laid the foundations for a diversified business group with his motto: 'all business is good'. By the 1970s, the Salim Group had already moved into large-scale manufacturing and became active in many of the key industries in Indonesia. Anthony Salim increasingly began turning away from the traditional Chinese small family firm. He started to work with professional managers – which is not surprising given the size of the group – and implemented a more complex organisational structure. He professionalised the business to such an extent that foreign partners, government officials, and bankers in Indonesia all speak very highly of the corporate practices of the companies under Salim's leadership. He tends to select investments and partnerships based on business criteria, and not on ethnicity. Although his father had invested heavily in his birthplace in China, partly to help the local population, Anthony Salim preferred to invest in Shanghai which offered better business opportunities. The number of new business activities, that were founded with ethnic Chinese partners was relatively modest and declined slightly over time (figures 6.2 and 6.4). Although there were links between the Salim Group leadership and other ethnic Chinese tycoons in the region, this study shows that new business activities were more often started with foreign partners than with ethnic Chinese or political partners (figure 6.3).

In fact, activities involving foreign partners occurred more often than activities with ethnic Chinese and crony partners put together (figure 6.4). The results show that the Salim Group is more embedded in global business than in ethnic Chinese businesses. Interviews confirm that Anthony Salim is not really interested in the ethnic Chinese network. Because the Salim Group was a preferred partner of the Suharto regime it became an attractive partner for Western companies as well, which used these connections to avoid bureaucratic obstacles in a corrupt country.

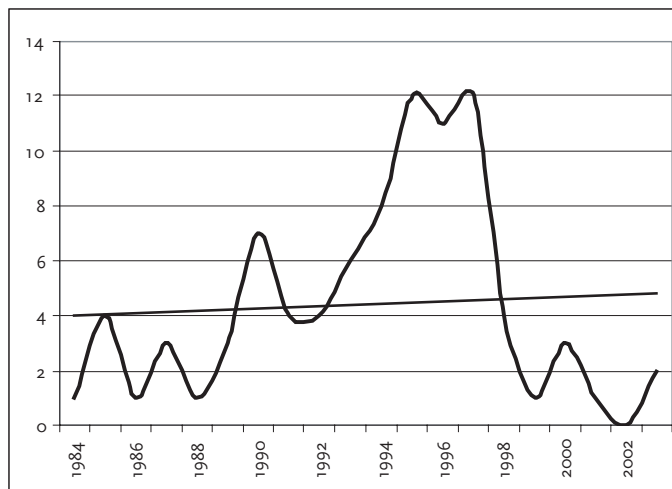
It is often the case that second-generation family members often do not continue the partnerships established by the first generation, even though Anthony Salim had already spent twenty years in the business before formally taking over the leadership. While Liem and Djuhar were close business partners for decades, their sons faced increasing conflicts involving various business issues. While Liem and Suharto got along very well and developed a close relationship, Anthony Salim

Figure 6.2 *Number of New Activities with Ethnic Chinese Partners*

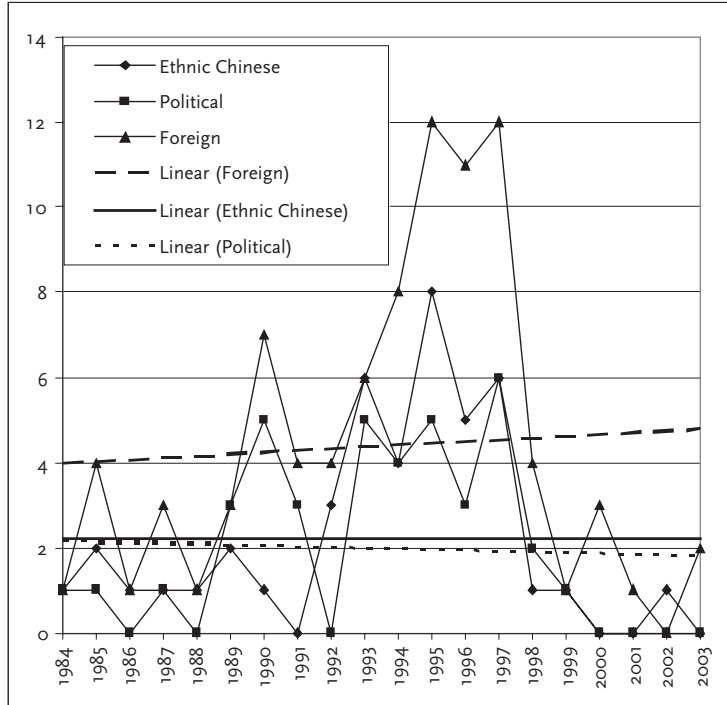
Source: Coding results

did some business with Suharto's son Bambang, but further was not very involved with Suharto's other children.

Because of declining oil revenues in the mid-1980s, Indonesia was forced to change its economic policies. It abandoned major public expenditures, devaluated the rupiah and moved from an import substitu-

Figure 6.3 *Number of New Activities with Foreign Partners*

Source: Coding Results

Figure 6.4 *Salim Group Activities by Partnership Category*

Source: Coding Results

tion to an export promotion strategy. Although the Salim Group did manage to establish a few new export ventures, such as in the shoe industry, they largely stuck to the domestic model, which was also repeated in their businesses abroad.

Although in interviews Anthony Salim claims that from 1979 onward the Salim Group was no longer involved in government contracts, this is not entirely the case. Furthermore, respondents claim that the Salims had a weekly meeting with Suharto, which indicates their intimate relationship to the regime and their ability to influence affairs in Indonesia. By the 1990s, the Salim Group was so large that it enjoyed considerable economic power, including the power to influence domestic institutions such as the legislature's implementation of laws. However, Anthony Salim is right in the sense that the Salim Group had developed the power to stand on its own feet and was no longer dependent upon special favours and credits from the government for its survival.

Although the Salim Group increasingly became a multinational enterprise, Anthony Salim also kept a number of key success factors that many ethnic Chinese business groups have, such as a flexible, flat structure under strong family leadership, and a portfolio strategy of spreading risks across businesses and countries. This enabled quick decision-making. All major business decisions required the consent of Anthony Salim, making him *the* central person in the group. A management information system allowed him to monitor his companies in great detail. Anthony Salim also maintained an opaque structure for hundreds of different companies. This network of companies allowed for opaque transactions, which were necessary to keep crony, ethnic and foreign partners happy. Since the 1990s, a handful of large Salim companies have been listed on stock exchanges, although the holding companies remained private to retain the flexibility.

Many internal transactions occurred within the rapidly growing Salim Group, some of which apparently benefited the family rather than the minority shareholders. But many internal transactions seemed to both offer private benefits and rationalise the business as well. An example of the frequent internal transactions can be found at Indofood, which, through internal acquisitions, achieved a large degree of vertical integration. From solely producing noodles, it acquired almost the entire noodle value chain from wheat and palm oil to supermarkets. Most of the acquisitions necessary to accomplish this vertical integration were internal acquisitions within the Salim Group which were integrated into a listed Salim company.

Faced with such a large empire and scarce family management resources, the Liem Investors focused their attention on the large Indonesian businesses, (such as Indofood, BCA, and Indocement) which also happened to be crony businesses in the eyes of the public. The Liem investors and Salim family occupied many of the board seats in these companies (table 6.2). The international businesses were managed by professional managers, such as Manuel Pangilinan in Hong Kong and Tan Kong King in Singapore, while other Indonesian divisions, such as chemicals were also under trusted professional managers. Just how strong these professional managers were became clear after the Asian Crisis. When the Salim family wanted to sell bits and pieces of their foreign interests to save the Indonesian businesses, several of the foreign managers successfully rebelled. The Salims had hitherto concentrated their managerial efforts on their Indonesian companies, which constituted the core of the group. As a consequence, the foreign managers had over time managed to acquire more freedom to follow their own courses. The fact that, even after three decades of internationalisation, the 'soul' of the Salim Group was still in the Indonesian businesses associated with Suharto clearly showed that the

Table 6.2 'Soul' of the Group: Liem Investor Board Positions 1994-2003

<i>Liem Investors</i>	<i>total in database</i>	<i>Indofood</i>	<i>Indocement</i>	<i>Indomobil</i>	<i>First Pacific</i>	<i>QAF</i>	<i>BCA</i>	<i>UIC</i>	<i>Indosiar</i>
Anthony Salim	41	x	x	x	x		x	x	
Ibrahim Risjad	29	x	x		x				
Benny Santoso*	28	x	x	x	x		x		x
Tedy Djuhar	24	x	x		x				
Andree Halim	21		x	x		x	x	x	
Franciscus Welirang**	21	x	x	x					
Liem Sioe Liong	21	x	x	x	x		x		
Sudwikatmono	21	x	x	x	x				
Djuhar Sutanto	16		x		x				
Johny Djuhar	7		x						

* Right hand of Anthony Salim

** Brother-in-law of Anthony Salim

Source: Author's board members database compiled from annual reports

Salim Group was resistant to change and tended to stick to what had worked in the past.

The real tragedy of the Salim Group is that, when the Asian Crisis struck, the Liem Investors were focusing on those businesses that were, in the eyes of the public, examples of cronyism and corruption. Faced with a regime change, the Salim Group was viewed as a symbol of the wrongdoings of the Suharto regime, and some of the businesses were attacked. The group was unable to influence the new government, which now took an anti-corruption and cronyism stand, and thus they lost many of their key businesses, such as BCA and Indocement. Some of the key government players were in favour of dissolving the Salim Group altogether and exercised political pressure on their Western partners to abandon the Salim Group.² However, these Western partners were satisfied with the group's co-operation and only reluctantly complied.

Anthony Salim has insisted that he changed the course of the Salim empire so that it became a more professional and less crony-dependent enterprise, but events during the crisis show that he was only very partially successful. The general public still saw the group as an element of the now-despised Suharto regime, and Salim's businesses and the family home were both attacked. The Salim Group strategy for independence may have ultimately only been very partially implemented, but in at least one aspect it clearly paid off. First Pacific, its Hong Kong conglomerate, was able to save the Indofood cash cow in Indonesia.

Even if at first it had to sell off most of its other businesses before it could re-acquire Indofood, this white knight role would not have been possible had the Salim Group not internationalised in the first place.

One of the lucky coincidences of the Asian Crisis for Anthony Salim was that, due to the sudden retirement of his father, and the withdrawal of his brother, he was able to easily consolidate his power (table 6.3). He competently steered the group out of trouble, tackling its debt problems and political issues one by one. Had succession issues arisen during this particularly critical time, or had the family been divided, this would have certainly had a negative influence on its chances for survival. Other companies that had faced a profound regime change, such as the Oei Tiong Ham group in the early Sukarno era, are known to have been unable to act decisively because the heirs to the business could not agree on a strategy.³

Another positive aspect of the crisis was that it suddenly established the scene for a more liberal market environment. The IMF forced Indonesia to abolish protectionist economic policies favouring cronies like Salim. This new environment better fit in with the direction Anthony Salim envisioned for the Salim Group, but also forced him to fight battles with new competitors and accept lower profit margins. Furthermore, investors, bankers, and the new government admired the group for their co-operation, and for the fact that they quite willingly handed over well-managed, professional companies during the crisis. Given the enormous political pressure that was exercised on the Salim Group during the crisis, in combination with their debt problems, it is a miracle that Anthony Salim was able to survive the political and economic attacks and actually turn it around to win the praise of even his opponents.

It is not surprising that it is exactly this dependence on Indonesia that Anthony Salim is now in the process of changing. His goal is to bring the relative importance of the Indonesian businesses back by investing in other countries. Anthony Salim has also strengthened his grip on a couple of key companies, both officially within the board and more informally. But he also realised that building relationships- is one of the Salim Group's strengths. Prior to the crisis, the group had made

Table 6.3 *Generational Change: Family Board Positions 1994-2003*

<i>Family Member</i>	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Andree Halim	3	3	3	3	2	3	3	0	0	1
Anthony Salim	4	5	5	5	5	5	5	3	2	2
Franciscus Welirang	1	2	2	3	3	3	3	2	1	1
Liem Sioe Liong	4	4	4	4	3	1	1	0	0	0

Source: Author's database

forays into the US and European markets, but the crisis forced a radical departure from this policy. The Salim Group is now concentrating primarily on the Asia-Pacific region, targeting countries such as China and India for investments. Many of the countries in this region display the characteristics of a market economy while also have relatively weak economic institutions. It is here in these high-growth, government-led economies that the Salim Group knows how to operate and knows how to develop into a multinational emerging market player.

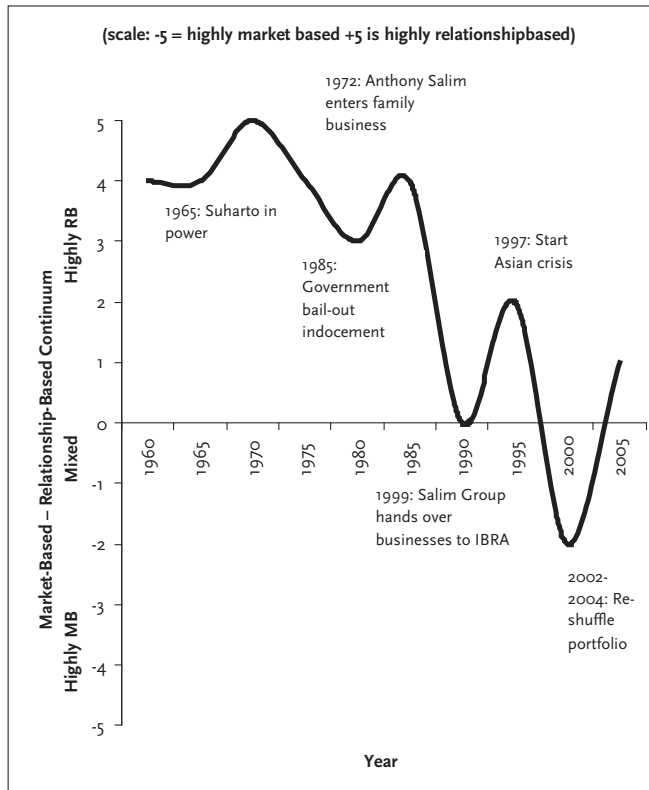
6.3 Strategy Oscillation

This study has shed light on the strategy of the Salim Group over time. It has shown that institutional changes (such as regime changes) and generational changes gave rise to a new strategic direction. Because the external and internal factors influencing strategy are not aligned, and may be sudden, irregular, and vary in intensity, it can be expected that the strategy development of the Salim Group will actually not follow a neat linear pattern. This is illustrated by first following an interpretative method, and secondly, via the coding procedure described in annex two.

Table 6.1 was based on an interpretative analysis of the corporate history of the Salim Group and its context. Based on table 6.1, one can assign scores to each strategic direction, on a -5 to +5 scale, where -5 is highly market-based; 0 represents a mixed strategy, while +5 indicates a highly relationship-based strategy. If one interprets the intensity of the type of strategy and expresses it as a figure, one can plot the scores on a time line (x-axis). Taking a market-based versus relationship-based continuum as the y-axis, the pattern reveals how the Salim Group strategy oscillates over time (figure 6.5).

An analysis of the business events utilising the coding procedure gives a similar oscillating figure. In fact, the oscillations using this procedure are even more pronounced. The overall results show a less clear trend, although the trend line in the figure indeed shows an overall movement towards a market-based strategy (figure 6.6).

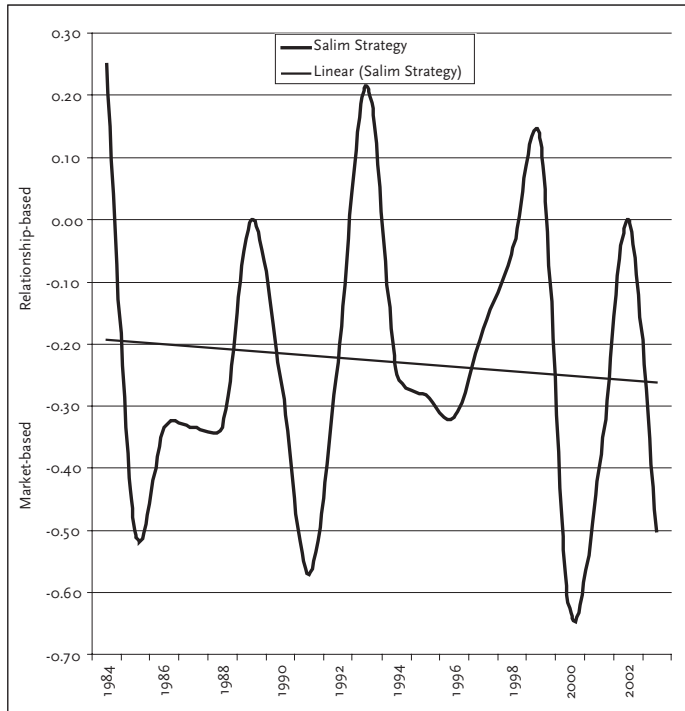
Both interpretative methods and data coding methods have their drawbacks. In the interpretative method, one can get stuck in anecdotes and the bias of the researcher can influence the interpretation. This is not the case for the more objective coding method, although this technique also has serious drawbacks, most importantly that it is a less encompassing method using proxies that only measure aspects of relationship-based and market-based model. It does not, for example, take into account the importance of the different business events. If one weighs the importance of all of the business events to reflect their

Figure 6.5 *Interpretative Analysis: Salim Group Strategy*

Source: Interpretative Analysis

relative importance, the accuracy increases, while the reliability of the method decreases because the more complicated the measurement method, the more likely an independent coder will assess events in a different way. However, the fact that both of these techniques show a similar strategic pattern strengthens the overall conclusion that the Salim Group strategy can be understood as shifting away from a relationship-based toward a market-based strategy as well as displaying an oscillatory pattern.

The first pole, the relationship-based model, is a strategy built on crony connections with politicians and (often ethnic Chinese) business partners, and is characterised by the pursuit of unrelated opportunities, seizing anything that comes along that provides either pecuniary benefits or strengthens useful relationships. Meanwhile, the second pole, the market-based model, adheres to the 'best practices' of international

Figure 6.6 Coding Procedure Results: Salim Group Strategy

Source: Coding Results

business, implementing a rational exploitation of markets and resources, professionalising management and putting in place formal financial and managerial control systems. It also strives for internationalisation, both in the form of bringing powerful foreign business partners to Indonesia and developing activities abroad.

Both poles offer opportunities for the Salim Group, but also have their risks. The more a company moves to one or the other pole, the larger the tendency becomes to return to one or the other extreme. If one then considers the history of the Salim Group, especially since early 1970s when the young Anthony Salim joined its management, it clearly shows both a steady modernisation and a dynamic interplay between two opposed patterns of business strategy.

To summarise the previous line of argumentation, while the founder of the business, Liem Sioe Liong, laid the foundations for a successful relationship-based model, which fit into the environmental conditions at the time the business was started, the son tried to move the Salim Group towards a modern, market-based enterprise by making the busi-

ness less dependent upon relationships. But the movement was not linear. While Anthony Salim tried to move away from a dependency upon Suharto, the opportunities and obligations attached to this relationship could not easily be broken off or dismissed. The more professional the Salim Group became, the more attractive it became as a partner for Suharto, as he could then legitimately claim that he had simply teamed up with the best business group in the country. The more the group became associated with Suharto, the clearer the risks attached to such an alignment became whenever discussions about the demise of the dictator arose. For these reasons, the Salim Group shifted between the opposing poles and built competencies associated with both the relationship and the market model. The oscillation approach applies well in the Salim Group case study. The strategy oscillations are clearly visible via various interpretative and quantitative techniques, while the interpretative approach is able to explain why strategy displays an irregular pattern.

6.4 Coevolution of the Salim Group and Institutions

The study shows that the Salim Group not only adapted to external circumstances, but was also able to influence Indonesian institutions. Table 6.4 gives an overview of mutual responses and adaptations between Salim and Indonesian institutions.

The most important external factors are regime changes in Indonesia, which have a strong impact on the Salim Group's strategies. Because most of the Salim Group's businesses remain in Indonesia, it is this institutional context that exercises the most influence on the Salim Group strategy. The domestic institutional context can be divided into three periods which coincide with the various Indonesian regimes.

Sukarno favoured socialist and nationalist policies in which the government, and particularly the army, had a strong influence on the economy. Liem responded by establishing relations with the army. A more favourable business environment arose under Suharto's regime, which encouraged domestic capitalists, particularly those who were close to the regime. Liem responded by cherishing his contacts with Suharto and including one of his family members in his circle of investors. He also helped implement government industrialisation policies. A policy of cronyism and a relatively open economy arose simultaneously.

During the Asian Crisis, the institutional context changed completely and the new government abolished many aspects of the crony capitalism environment, while a simultaneous reconstruction of the crony system with other key players also occurred. Liem responded by with-

Table 6.4 *Mutual Influencing between Salim and Indonesian Institutions*

<i>Period</i>	<i>Salim Group Actions</i>	<i>Government Actions</i>
1950-1965	Liem looks for partners in unstable environment	Military officers need funding and take Liem as a partner
	Liem takes care of army supplies and builds stable income	Military officers know Liem as a trustworthy partner
1966-1997	Liem willing to comply, but lacks funds	Suharto government intends to build up local industries
	Liem uses his connections to be successful in building basic industries	Government offers cheap capital and favourable conditions
	Liem is successful and incorporates partners from Suharto circle	Government offers Liem favourable conditions in other industries
	Liem diversifies and builds his Salim Group, becomes crony of choice	Government increasingly trusts Liem as it reaps the benefits
	Liem helps government by investing in new steel industry	Government now intends to build capital-intensive industries
	Salim Group quickly builds up market power	Government gives Liem import monopoly
	Liem helps out Suharto's foundations when in need	Government grants Liem various monopolies
	Salim invests abroad and reduces dependence on Suharto	Suharto family requests Liem to participate in ventures of children
	Salim Group does not abandon Suharto	Suharto under pressure, eventually forced to resign
	Salim Group tries building new government connections	New Government wishes to punish Salim Group
1997-2005	Salim Group complies, hands over 107 companies	Government struggles with economic crisis
		Anthony Salim sits on official committees to resolve debt problems
		Government pressures Salim Group to dissolve
	Salim Group decreases dependence on Indonesia	

drawing and handing over the leadership role to his son, who was identified less with Suharto and who could legitimately claim he was in favour of a more professional and less connected enterprise.

Under Sukarno, Liem found the right partners, a skill that also benefited him during the Suharto regime. Liem successfully designed a relationship-based strategy, which led to enormous growth. When Suharto stepped down after 32 years, the group experienced a profound shock. It needed to help former political partners while it also needed to establish new connections with the new government, which was quite hostile to the Salim Group. With the help of some ethnic Chinese businessmen they were able to survive the crisis by selling off many of their businesses while holding onto a few cash cow companies. The crisis forced the Salim Group to abandon its relationship strategy to a certain extent and begin focussing more on businesses with non-crony

connections. The fact that a regime change coincided with a severe economic crisis accelerated the strategy change.

In terms of internal factors, the size of the company also forced changes in its management and organisational structure. Its leadership responded to these challenges in the 1990s by hiring professional managers and reorganising its structure. But this strategy seems to have been mostly influenced by generational changes. Anthony Salim joined the business in the 1970s and slowly took over the leadership role in a period of 20 years of guidance by his father. Even though his elder brother was also active in the business, at least in the 1980s, it was clear to the outside world that the next leader would be Anthony Salim. The crisis put an abrupt end to the slow leadership transition and thrust Anthony Salim into a position of power. The sudden change cleared the way for difficult decisions that had to be made during the Asian Crisis, which required clear and decisive, second-generation leadership.

The institutional environment was highly dependent upon Suharto, and exercised an influence on the group by providing a changing range of opportunities and obligations, as well as a favourable patron. Being part of Suharto's inner circle, meant the emergence of a mutual influence situation, which provided a win-win situation for both Salim and Suharto, and to a certain extent the Indonesian economy as well. Table 6.4 has shown some of the interactions between Indonesian institutions and the Salim Group. When the Salim Group's businesses began to sour, the government stepped in to pick up the bill. Meanwhile, the other side of the coin was that when Suharto's family businesses and/or foundations suffered, the Salim Group would step in. Although the two parties were not equal, they certainly influenced each other on many occasions.

Their relationship was so close that during the Asian Crisis, Indonesian protesters saw the Salim Group as a symbol of a corrupt Suharto regime, an event that showed how the Salim Group had, in the eyes of Indonesians, become itself a key part of the institutional environment. In the face of a radical institutional and regime change, the Salim Group, by virtue of its size and economic influence, continued to influence its environment, albeit not to the same extent as it had under Suharto.

Internationalisation and cut-throat competition became the focal point after the crisis. The empire had shrunk significantly, and managerial attention was divided between Indonesia and other Asian countries, which meant that the opportunities for shaping the Indonesian institutional context became less pronounced than before. In many ways, the effects of generational changes within the Salim Group preceded institutional context changes. Anthony Salim had the perspective

of a new, Western-educated generation, which offered a new vision that fit in better with a global business trend of internationalisation and free markets, while still incorporating the value of personal connections. However, Anthony Salim attempted to implement a more market-based strategy during a time when crony capitalism was still strong, and the benefits of the old strategy high, and hence the process was very gradual. The successful implementation of his strategy coincided with a less fortunate regime change and crisis, which also firmly established him as the leader of the group.

The Salim Group co-evolved with various Indonesian institutions because it was influenced by them, but, in turn, also had an influence on them. The co-evolution rhythm was irregular, clearly there were periods when the Salim Group took a more passive and adaptive role, whereas during other periods it was able to capitalise on its relationships with Suharto and exercise a proactive influence on its environment, resulting in favourable policies towards the group. At the height of its power, the Salim Group not only benefited from Suharto, it also continued to build an independent, international professional business group. This proactive strategy provoked a counter-reaction with the demise of the Suharto regime. This happened precisely because the Salim Group had been in such a position of power in the Indonesian economy, thus the new government sought to dissolve the Salim Group as a symbol of the old corrupt regime. The group, however, managed to use proactive and reactive strategies to deal with the post-crisis environment. Eventually, the Salims again began to diversify outside of Indonesia in other Asian countries.

6.5 Summary

Liem Sioe Liong laid the foundations for three strategic elements that are presently observable within the Salim Group: a domestic business model, opportunistic diversification, and a preference for teaming up with a wide variety of partners. The close connections with Suharto enabled the group to influence Indonesian institutions but also meant that they were strongly influenced by them. Anthony Salim's vision was to change the group and make it more international and less dependent upon Indonesia and Suharto. He succeeded only partially and quite gradually while it oscillated between relationship-oriented and market-based strategies. Suharto's demise, which coincided with the economic crisis, became a turning point for the group. On the one hand, it led to a near-collapse of the Salim Group, while, on the other hand, it cleared away the obstacles for the more international and independent business strategy envisioned by the second generation of leaders.

7 Conclusions

7.1 Introduction

Whereas in the previous chapter the evolution of the Salim Group within its context over 50 years was described, in this last chapter the evolution of the Salim Group strategy is linked to the theoretical approaches presented in chapter one. We look at the culturalist approach, the crony capitalism approach and the institutional theories on emerging market strategy. The chapter ends with conclusions and recommendations for further research.

7.2 Flexibility and Path Dependence

Some culturalist approaches suggest that ethnic Chinese firms are extremely flexible both in terms of adaptability to the environment¹ and in terms of their embedding in an international network rather than in a national context.² Several authors have thus spoken of ‘transnational’ or ‘footloose’ enterprises.³ Due to the extensive ethnic network, the ethnic Chinese firm is thought to be ‘ungrounded’ in its domestic context. Path dependency approaches, on the other hand, suggest that history matters, and that companies are restricted in their present strategic choices by past decisions, which may limit their flexibility.⁴ In the case of the Salim Group, one can observe three types of path dependency.

First, the group developed a domestic business model focusing on products for a large consumer base and stuck to it, even when the government started providing incentives to establish export industries instead of import substitution industries. Profiting initially from army connections and the pent-up demand after the economy recovered from the detrimental policies implemented during the Sukarno era, this model made sense in the historical setting in which the Salim Group emerged. In a large and fast-growing market like Indonesia, this domestic business model offered excellent business opportunities in many industries. When the import-substitution industrialisation phase ended and the government started to promote exports, the Salim Group stayed with their local-for-local model instead of adapting to

new circumstances. After all, much of their capital was fixed in their industrial enterprises, which were doing well, so the Salim Group leadership spent most of their money in their already successful businesses and in establishing similar businesses that produced for local markets. Although the Salim Group maintained some organisational characteristics that made it flexible and quick to act upon emerging business opportunities, the basic domestic business model remained the same, both in Indonesia and abroad.

Second, the Salim Group's soul remained in their domestic businesses which were established in close connection with Suharto. Although the Salim family pursued internationalisation strategies for several decades, this has never changed their fundamental dependence on Indonesia. Before the Asian crisis, after two decades of internationalisation about 35% of the sales came from international operations, showing how much the Salim Group was part of the Indonesian economy, in which the Group played a major role. When the Asian Crisis occurred, the Salim Group decided to sell many of their international companies to save their Indonesian enterprises, showing again how much the group was oriented towards Indonesia. Given the political pressure to dissolve the Salim Group during the crisis, why did they not try to hold on to their foreign companies instead of their Indonesian enterprises? Apparently their investments in social capital, in fixed assets, and their market knowledge were specific to Indonesia, and it was not easy to leave this market behind. The Asian Crisis has shown that the Salim Group was unable to disentangle itself from the Indonesian domestic context. Contrary to a company like Philips, which closed its doors in the Netherlands during the Second World War and continued doing business by moving its headquarters to the US, the Salim Group was unable or unwilling to do so. It appeared that rather than being transnational, the company was actually strongly attached to Indonesia. Anthony Salim would now like to change this dependence in a local context and he has invested heavily in other Asian countries. But he still wants to have 50% of the business in Indonesia.

Third, a new strategy envisioned by the second-generation leader was implemented very slowly because it ran up against past experiences and the institutional context. The Suharto relationship proved to be extremely well chosen and profitable for the Salim Group. It gave the Salims access to resources and the ability to build management capacities to run a large corporate empire. In the years running up to the Asian Crisis, the environment increasingly rewarded businessmen close to Suharto. There was no immediate need to distance the Salim businesses from Suharto while he was still in power, and yet, this second-generation leader claims that this was his goal all along. The extraordinarily long presidency of Suharto made the Salim Group the large

multinational it is now, and allowed it to build and sustain a successful domestic business model. But Suharto's long term presence also hindered preparations for a post-Suharto period.

The Salim Group study shows how companies develop resistance to change over time. The national and historical context played a central role in defining the basic business model of the Salim Group. It has always been a domestic player in large emerging market industries, deeply embedded in the Indonesian context, combining business acumen and relationship capabilities. Changing this fundamental strategic orientation is a slow process. Much as a sailboat is able to change directions more quickly than a large tanker, large ethnic Chinese companies have become increasingly unable to implement rapid changes.

7.3 The Evolution of Business Networks

Culturalist theories on ethnic Chinese firms often assume that their leaders prefer to do business with businessmen from their own ethnic network.⁵ Referring to Confucius's influence on Chinese culture, they assume that building trust among their fellow Chinese is much easier than dealing with foreigners. Crony theories, on the other hand, also focus on relationship-building, however, not with fellow Chinese immigrants but with politicians. The alliance, it is argued, provides a win-win situation between the business skills of the Chinese and corrupt Indonesian politicians.⁶

The Salim Group has engaged in many business ventures with one or more partners over time. During the early years of the Salim Group, Liem Sioe Liong benefited from contacts with other ethnic Chinese immigrants and his own family members. But as soon as he had established a substantial business, he laid down further contacts with a variety of partners. On the one hand, he maintained his contacts with ethnic Chinese partners such as the Djuhar family and the Riady family. But soon after Sukarno assumed power he established relationships beyond just ethnic Chinese circles, namely with local businessmen and family members of several Indonesian presidents. Once the Salim Group grew into an emerging industrial firm, it initially established contacts with the ethnic Chinese network abroad to fund its first factories. But soon thereafter, it widened its group of partners to include foreign firms that provided knowledge, technology, and capital.

The quantitative analysis of all of the Salim Group business affairs over the last 20 years clearly shows that the group maintained various types of partnerships, namely with ethnic Chinese partners, political partners, and foreign partners. Of these, the foreign partners, emerged

as the most important for the Salim Group, more important than the other two types put together.

This study clearly demonstrates the shortcomings of both the culturalist and the crony approach in explaining ethnic Chinese networking styles. Although this research supports both because ethnic and political connections do matter, it also demonstrates the shortcomings, because these theories overlook the fact that the most frequent and most important network ties were indeed with Western and Japanese companies. If one studies network ties from an evolutionary perspective, it becomes clear that cultural and crony theories *together* can explain the nature of the Salim Group business network in its very early days, but increasingly less so as time passes.

Using the aforementioned classification of social capital into bonding capital (with one's own social group) and bridging capital (across social strata),⁷ we can conclude that the Salim Group consciously used both bonding capital with ethnic Chinese, and bridging capital with political leaders and multinational firms. Given the sometimes hostile context the group operated in, its success is perhaps precisely due to the group's ability to create social capital of various kinds.

7.4 Diversification and Social Capital

Traditional theories of diversification often utilise the term 'economies of scope' to explain why it is sensible to combine diverse businesses under one umbrella.⁸ The reason is that some production inputs may be sharable and therefore beneficial to more than one line of business. The institutional context also seems to make a difference: If certain institutions are weak there may be even more advantages to combining different economic activities in one firm or one business group.⁹

While other reasons for diversification also exist, the study of the Salim Group shows how relationships with Suharto and ethnic Chinese firms stimulated the group to diversify, eventually resulting in a web of different businesses with different partners. Government or partner requests have often stimulated the Salim Group to pursue ventures in new industries. Therefore, besides classical economies of scope and institutional factors, one could argue that social capital can also stimulate diversification. I propose that we call this *economies of connectedness*, which can be defined as advantages associated with diversification resulting from sharable personal relationships of business owners, such as connections with government officials or with members of their ethnic group. 'Economies of connectedness' is a concept that is both broader and more precise than corruption or cronyism. The latter are necessarily illegal and associated with the private gains of bureau-

crats, whereas diversification resulting from one's connections is not necessarily illegal.

The Salim Group clearly went through various phases in which both economies of scope and economies of connectedness played a different role. In the early stages, one's Chinese connections allowed a poor immigrant to rapidly establish himself in the business world. Thereafter, his connections with the army, and particularly with Suharto and his family, made it possible for the Salim Group to emerge as the largest business empire in Indonesia. Sometimes the Salim Group received explicit government instructions to invest in a new industry, such as the steel industry in the 1980s. The internationalisation of the group was initially carried out with the help of ethnic connections, but later through more traditional business contacts with foreign groups as well, some of which were technology partners in Indonesian businesses.

From 1985 until the Asian Crisis in 1997, Salim's diversification was increasingly driven by a desire to achieve vertical and horizontal integration, often based on economies of scope factors such as shared human resources, capital or access to partners with technology. The weak institutional environment may have played a role in its vertical and horizontal integration. Its transactions with others, such as suppliers or buyers, were expensive because of uncertainties, the corrupt environments, and poor law enforcement. As a consequence, it became cheaper to trade within the group than with external business representatives. In other words, as transactions costs increased in Indonesia, it became more sensible to have all the necessary services available within the group rather having to deal with an unpredictable partner.

The influence of political and Chinese connections decreased, although it never totally vanished. During the crisis and its immediate aftermath, the group becomes less diversified, the political connections decreased significantly, and the Chinese network was relevant only as a source of potential buyers for businesses that had to be divested. In the most recent period, the direction is not quite clear as yet, but it seems that classical economies of scope have primacy over economies of connectedness, although the latter have not disappeared.

7.5 Strategy Evolution and Generational Change

Whereas institutional theories assume that the main reason a company changes its strategy is to adapt to changes in the business environment,¹⁰ family business literature points to the importance of generational change in explaining an the emergence of a new strategy.¹¹ Family businesses can be considered an extension of the psychological interplay between family members.

During the history of the group, Liem Sioe Liong and his son Anthony Salim had different ideas about business. One was a poor immigrant from the hinterlands of China, without much education and probably limited skills for operating within sophisticated international-oriented elites. Meanwhile, the other is a well-bred international tycoon, rooted in his country of birth even if he maintains some cultural affinity with China. The father started his business career in the late 1930s in a remote provincial town of the then Dutch Empire and climbed the social ladder until he reached the stratosphere. The other was born into wealth and privilege in a proud and powerful country and received an international upbringing. Undoubtedly, the son respected his father, which was further reinforced by the traditional Chinese veneration of the elder, but he must have also been longing with every fibre in his body to modernise the family business and acquire respectability and social acceptance – if not for himself then at least for his heirs – very much in line with the transformation of the Vanderbilts or the Rockefellers from robber barons to that of great American families.

This study makes it clear that Anthony Salim initiated some changes that slowly emerged as a new strategy. During the period when he had just entered the business, the group began to internationalise and professionalise its operations. However, this change was slow and incomplete as it ran contrary to other developments in the business context. It was only after the Asian Crisis that this strategy was implemented more fully. This study shows that it is not only institutional changes that matter, but generational changes can also lead to a shift in strategy, which may in turn be slowed down by institutional factors.

7.6 Strategy Oscillation

Common sense strategy approaches implicitly assume that the strategy of a company evolves over time in a more or less gradual and linear way. Some academics, for example, view emerging market multinationals in a stage perspective. They suggest that, in weak institutional environments, companies may resort to strong network ties, which may be an alternative form of trust in the absence of strong rules and legal institutions.

They consequently expect that once the institutional context moves to a liberal market model, these companies will display less relationship-based strategies and move instead to a market-based orientation with weaker network ties.¹² The story of the Salim Group supports this view, but simultaneously shows that it is overly simplified. First, because market-based and relationship-based strategies may not be mutually exclusive; second, because generational changes may interfere

with institutional changes; and third, because institutional changes towards a free market model are not always linear, manifesting instead frequent setbacks to protectionism and cronyism in Indonesia.

Liem Sioe Liong can be considered a representative of the relationship-based model, while Anthony Salim more closely represents the market model. The second-generation leaders do not necessarily continue the same networks their parents established, and may even prefer new types of partners. Liem built strong ethnic Chinese and political networks, while Anthony Salim seems to prefer choosing his partners based on business considerations. The results show that the generational change produced a new strategic vision, which was partly informed by a changing global context and a Western education. The new strategy, however, which preceded institutional changes, was implemented very gradually. It is not necessarily true that corporate strategy follows institutional context, but it can also manifest the opposite where corporate strategy changes anticipate institutional change. As the study has also demonstrated, the Indonesian institutions did not modernise over time. At the end of the Suharto regime and after the crisis, crony networks interfered with various open market approaches and provided numerous setbacks. In Indonesia, one cannot speak of a straight road to a liberal market economy – this road meanders continuously.

Both Liem and Anthony Salim continue to value their relationships and continue to build strong networks. While cronyism and protectionism in Indonesia after the crisis has decreased, the Salim Group has simultaneously implemented a more market-based strategy. The new post-crisis strategy has brought the Salim Group to new countries that are also characterised by relationship-based environments, such as India and China, both of which are interventionist states. It appears that the Salim Group has simultaneously built both market and relationship-based competencies, and it is able to operate in both contexts rather than simply via a sequential process. The group seems to oscillate between the two strategic orientations depending on the context. Over time, however, Salim's trends show a propensity towards a market orientation.

The two strategic models – the relationship-orientation and the market-based strategy – can be seen as opposite poles of a continuum, representing pure types. Individual business decisions are seldom pure and exhibit a mixture of both modes. Indeed, the phenomenal success of the group – at its height it was the largest group in Southeast Asia – is undoubtedly due in large part to the 'lucky coincidence' of Liem meeting an obscure army officer who eventually became the strongman of a gigantic country for some thirty years. But without significant managerial competence of the highest calibre, the group could not have dealt with the challenges of growth and increased environmental and technological complexity. As the Salim Group switches between the var-

ious demands and opportunities of its network and its own perception of the market, its managers build competences associated with the relationship-based as well as market-based models. The scale and capital made available as a result of the relationship-based businesses has stimulated the development of foreign, market-based businesses. The shift to a more market-based model was built on accumulated resources and relationships, showing that the two models are intertwined.

Neither the Salim Group strategy nor the institutional context in Indonesia ever fully departed from a relationship-based way of doing business, but its dependence on the domestic context was mitigated by increased foreign investments. The more a company moves towards one of the poles, the greater the pressure becomes to move in the opposite direction. An increased dependence on Suharto carries an increased risk for the business because he may at some point be overthrown. Increased market-based strategies that fail to adapt to the leadership's personal and political wishes may also carry a high risk. The ability to readily shift between these two models, so quickly that it appears to be simultaneously pursuing both, may very well be the reason for the Salim Groups success.

This study therefore supports the notion that emerging market companies may have to choose between the importance of network ties and market-based competition, and that over time the latter will prevail. But the 'route' that an emerging market company takes is not linear. The company may shift its orientation continuously depending on the demands of the environment and its internal capacities. The evolution of a strategy appears to display a certain 'rhythm'.

7.7 Strategic Choice and Institutional Environments

Several studies suggest that in a more interventionist environment, a company is more restricted in its strategic choices than in a 'free' market-based environment with many competing players.¹³ The Salim Group study however, gives rise to three important observations indicating that the Salim Group could achieve *more* freedom in this environment. First, despite a highly interventionist (or institutionalised) environment in Indonesia, characterised by patrimonial relationships and centralised political power, companies still find room for competition, but it was competition to gain Suharto's favours rather than to gain market share. In the Salim Group's case, we see a relatively modest firm emerge as the key domestic player, a development directly attributable to the group's good interpersonal relations with Suharto, but surely also because of its high degree of competence relative to other ethnic Chinese cronies. Second, the inclusion in the inner circles of

the Suharto regime opened up strategic possibilities that would have been extremely unlikely under market-based conditions.¹⁴ On the one hand, the unique access to credit and the relative protection from market forces allowed the Salim Group to become an industrial as well as an international player and build up a strong managerial resource base. This set it apart from other ethnic Chinese firms in the region. On the other hand, we must also note that the strategic direction of the Salim Group is simultaneously restricted when their crony partners directed scarce corporate resources to the Indonesian economy and to themselves. A major economic player like Salim can exercise a relatively large level of strategic choice, even to the extent that it can advance its corporate resource base considerably and influence laws and exclusive licenses. Third, by building a strong resource base, the profitable Suharto-alliance provided the financial freedom to diversify beyond the domestic institutional environment into Hong Kong, the Philippines, Singapore, and other markets.

Despite the continuous internationalisation of the Salim Group from 1975 onward, we can also observe that the 'soul' of the company remains in the (semi)monopolistic Indonesian companies associated with Suharto. This focus, which is valid even today, may indicate that the Salim Group's resources enabled them to take new strategic directions, but due to its past or present successes based on old strategies, or due to outside pressure, their internationalisation remained limited. Whereas in several respects, historic events limited the flexibility of the Salim Group, its immersion in a variety of networks, in particular political ones, provided the group with a high level of strategic choice.

7.8 Corporate and Institutional Alignment

Most co-evolution research and institutional research, implicitly assumes a clear division between the firm and its institutional environment. Research on big business in developing states however indicates how corporate players may be able to influence politicians by building crony roles, thus effectively creating a grey zone between the corporate sector and the government.¹⁵ The Salim Group case also shows that the clear distinction between the company and institutions may not be justified. The institutional context in Indonesia for over three decades was characterised by a strong, long-term dictator who personally influenced almost all domestic policies. Indonesia was also faced with a situation where there was no clear distinction between Suharto's political, economic, and business goals, a situation often termed 'Suharto Inc.' in newspapers and magazines.¹⁶ Furthermore, this peculiar institutional context, which was so dependent upon a single person, we ob-

serve an economy with one extremely large domestic business player, with his hands in many industries, often in monopolistic positions. The sheer size of the Salim Group, certainly by the 1990s, made it a systemic risk to the economy; and Suharto must have realised that the group was an economic power that could not be ignored and that was now too large to fail.

In the Salim Group's case, not only were the corporate and institutional environments centralised and represented by two strong personalities (Liem and Suharto), they were also able to develop a close and long-term relationship, as evidenced by their frequent meetings and the favourable policies that were implemented to stimulate Salim Group profits. The alignment between Suharto and Liem played a role on many levels including the economic, personal and business levels. It was characterised by a mutual understanding of give and take. The distinction between 'opportunity' and 'obligation' therefore remains somewhat murky. This alignment was limited by the potential for strong criticism, and Suharto presented the alignment as beneficial to the development of Indonesia. The Salim Group being 'an instrument' for national development was, considering the respective political and economic power of both, an argument that sounded convincing. The consequence of the alignment was that people started to perceive the Salim Group as part of the Suharto regime. In the words of Schwarz: 'Liem's empire straddles the line between private enterprise and government like no other Indonesian organisation'.¹⁷ In the end, the Salim Group became a symbol of the Suharto regime.

This symbolic function made it harder for the group to adapt to the post-Suharto context. When Suharto resigned and the economy declined, mobs attacked Bank Central Asia, the ultimate symbol of the Suharto and Salim family alignment. But here too, generational changes played a role. Liem wisely withdrew after Suharto resigned, and let his son, who was less associated with the long-time dictator, handle the new political and economic situation. This study suggests the possibility that large corporate entities can successfully morph into institutions given the right conditions of strong corporate and institutional alignment.

7.9 Theoretical Implications

This study strongly suggests that the culturalist approach to ethnic Chinese firms cannot adequately explain the development of the Salim Group. The Salim Group has clearly outgrown the small one-product family firm with its simple structure. Its history and size assumes various restrictions to flexibility and one can observe that several aspects

of corporate strategy, such as the domestic model and the diversification strategy remain constant, even though the environment has changed. Rather than focusing on ethnic Chinese partners it has broadened its network with political connections and foreign partners, thus availing itself of bonding as well as bridging capital.

The crony capitalism approach is rooted in the discipline of political economy, which in itself has little interest in corporate strategy. Yet the notion of interdependence between corporate and political actors applies well to the Salim Group which was influenced by Indonesian institutions as well as being able to influence them. As mentioned earlier, it even became a symbol of the Suharto government itself, showing how intertwined the group was with Indonesian institutions.

The institutional approach applies best to the Salim Group, as it can explain how strategy in weak institutional environments may evolve. However, in this case, this perspective should be complemented with insights from social capital approaches and family firm theories. It is not only the institutional context that matters for a diversified strategy, social capital also increased diversification.

The co-evolutionary perspective has led to important insights in this study. Time series analysis showed how strategy was not linear but oscillatory, because it was influenced by both institutional and generational changes. The Salim Group became so large that it consciously influenced the Suharto government, but in return was also heavily influenced by it, giving rise to patterns of mutual responses between the Salim Group and Indonesian institutions. These patterns and responses can be seen as the rhythm of the Salim Group strategy.

This study shows that the Salim Group is not 'very Chinese' in the strategies it implemented. It is obvious that every company develops in its own unique way, and is shaped by its own management and environment. But having said this, there is little reason to believe that merely 'being Chinese' has had a large influence on recent Salim Group strategy, which has set it apart from other family business groups in other emerging markets. I suspect that this is true not only for the Salim Group, but also for other large ethnic Chinese family business groups. However, further research is necessary to fully understand whether the outcomes of this study apply only to the Salim Group, or whether they represent strategy patterns that are common to other ethnic Chinese family business groups.



Annex 1 Sources

Annual Reports

The following table gives an overview of the 69 annual reports of (former) Salim Group companies (i.e., companies in which the Salim family and/or Salim investors had a substantial interest and one or more board memberships) that were available to me and used in the writing of this book. These companies represent the largest listed companies within the Salim Group. The private companies are not obliged to publish annual reports. Information on these companies in the form of annual reports was only available for Bank Central Asia (BCA).

<i>Company</i>	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 year the company was listed on the stock exchange.

Media Sources

In this study, media sources were an important type of information, in particular newspapers. During the period 2001-2005, an archive of news concerning the Salim Group was created and comprised thousands of articles. This archive was created by means of structured searches in databases and in the CSIS library. The table below gives the number of articles reviewed from the largest source: the LexisNexis database.

<i>Lexis Nexis Search Terms</i>	<i>Articles Retrieved</i>
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

Interviews

For this study, 56 interviews were carried out with a total of 40 respondents. All of the interviews took place during the period 2003-2006. Several respondents, in particular Salim managers, were interviewed more than once in order to obtain more in-depth information. A relatively large number of the interviews were done with IBRA employees, particularly those who handled Salim Group assets after these assets were handed over to the government. The information that became available on the Salim Group through the handover of assets was perceived to be very valuable and a unique opportunity to learn more about the non-listed Salim companies. Several people in this category were also interviewed more than once. For each interview, a summary was made and interviews with Anthony Salim were recorded and transcribed. The table below gives a breakdown of the number respondents and interviews in each category.

<i>Category</i>	<i>Description</i>	<i>Respondents</i>	<i>Interviews</i>
1	Salim Group managers	8	16
2	Academic experts	6	7
3	IBRA executives	5	9
4	Former ministers	3	4
5	Financial analysts	2	2
6	Journalists	3	4
7	Manager other conglomerate	5	5
8	Foreign partner of Salim Group	3	3
	Other	5	6
Total		40	56

While all of the sources have their advantages and disadvantages (see table below), these can be partly compensated for by using the principle of triangulation, or using the converging of sources to build a chain of argumentation.

<i>Sources</i>	<i>Advantages</i>	<i>Limitations</i>
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 Specialised 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

Annex 2 Time Series Analysis of Business Events

Strategy can be assumed to consist of a set of individual business decisions that together make up the actual direction of a firm. I call those 'business events'. A new business event was anything of importance outside continuing existing business. Examples of business events included the expansion of an existing business; a new venture with a new or existing partner; a spin-off or acquisition. Each business event was listed in a separate one-page document with a title, a description, a date and information (plus their sources) giving more details about the event. An example of such a new business event is given below.

Business Event:	Liem Sioe Liong and Robert Kuok form sugar empire
Date:	April 13, 1994
Short Description:	Liem Sioe Liong and Robert Kuok merge sugar interests in Indonesia
Context:	Robert Kuok is an ethnic Chinese from Malaysia

Source 1: South China Morning Post, April 13, 1994

Indonesia's Liem Sioe Liong and Malaysia's Robert Kuok plan to create one of the largest sugar empires in the world by merging their sugar interests in Indonesia. According to a *Business Times Singapore* report, the two tycoons plan to set up a new holding company and invest more than US\$ 1 billion on seven projects in south Sumatra. Each of the projects, costing about \$ 130 million, will cover some 25,000 hectares and will have a factory capable of crushing 10,000 tons of cane a day to produce about 120,000 tons of sugar a year.

Source 2: The Financial Times, April 20, 1994

Two of south-east Asia's wealthiest businessmen, Mr. Robert Kuok and Mr. Liem Sioe Liong, are teaming up to develop a series of sugar plantations and refining operations in the south of the Indonesian island of Sumatra. Mr. Kuok, a Malaysian Chinese, controls a global business empire with interests ranging from housing schemes and beach resorts to ownership of a controlling interest in Hong Kong's South China Morning Post newspaper group. Mr. Liem, an Indonesian Chinese, is generally regarded as Indonesia's richest businessman with interests ranging from cement manufactur-

ing to noodle making. The Salim group, Mr. Liem's main company, had turnover of more than Dollars 9bn last year. The fortunes of both Mr. Kuok and Mr. Liem were founded on the commodities business.

Sources: Lexis Nexis database

In order to measure relationship- and market-based strategies over time, I developed four indicators and a coding strategy that allowed the measurement of the movement between a relationship- and market-based strategy over time. Two indicators were related to a relationship-based strategy and two to a market-based strategy.

Strategic Themes

<i>T</i>	<i>Indicators</i>	<i>Source</i>
T1	Ethnic Chinese Relations	Theories on the CFB and diaspora approaches
T2	Political Connections	Theories on Crony Capitalism
T3	Foreign Partners	Institutional Approaches to Strategy in Emerging Markets
T4	Market-Based Environment	Institutional Approaches to Strategy in Emerging Markets

Relationship-Based. According to one set of theories, ethnic Chinese businessmen prefer to do business with other ethnic Chinese rather than with foreigners. The first characteristic of a relationship-based strategy is therefore that Chinese form ethnic Chinese business networks. Secondly, another set of theories suggests that ethnic Chinese family firms are characterised by crony relationships with powerful officials. Together these network strategies represent the relationship-based strategy.

Market-Based. Measuring market-based strategic models is not an easy exercise because the literature offers few clues of what proxies we could use. Much of the literature on strategy in emerging economies focuses on conglomeration and diversification. The existence of weak institutions encourages conglomeration whereas this strategy has become rare in Western economies. Less diversification could therefore indicate a more market-based strategy. I initially tried to create a measurable variable by looking at how it fit into the existing portfolio of each strategic business decision. The expected trend is that unrelated diversification will decrease over time. However, this variable, which should indicate the fit within the existing portfolio, was problematic. First, it is hard to assess, when one studies a large and elaborate conglomerate, whether a

new business fits into the larger portfolio. While it was clear for some events, other events led to confusion. Also, when a conglomerate is already large, almost every new activity represents a fit somewhere within the current portfolio, so this type of measurement was not considered useful. Secondly, the literature also suggests that ethnic Chinese family firms modernise and become more market-based once they are subject to globalisation trends. The degree of embeddedness in a global business context outside its own domestic and ethnic partners may therefore indicate that a company is moving towards a market model. This can be seen in the number and importance of foreign partners (non-Indonesian and non-Chinese). If a company does extensive business in market-based environments, such as in the United States, one can assume that this company reveals its capacities to operate in a market-based manner. Therefore, the number of new business deals in countries with 'modern' or market-based institutions is another indicator. Together, these two proxies represent the market-based model.

The four indicators were tested on a sample of the data by a second and a third researcher, both unfamiliar with the case material. After developing the indicators the business events were analysed using a coding procedure. Coding is an analytical strategy that allows quantitative analysis of qualitative data. This requires a unit of coding, defined as: 'the most basic segment, or element, of the raw data or information that can be assessed in a meaningful way regarding the phenomenon'.¹ The unit of coding of this study was a new business event. A total of 277 events were entered into the database of which 266 have been coded. The remaining 11 events occurred prior to 1984. For the years prior to 1984, there was often only one database event annually, which was considered too few to attain a meaningful score. It was then decided to consider 1984 through 2003 (20 years) as the analysis period.

The purpose of coding raw data is to allow different data to be compared and processed using quantitative techniques. In this study, the various themes taken together establish a theoretical framework, which is called axial coding.² Generally speaking, the clearer the coding instructions, the higher the reliability of the code, which is an important indicator for the quality of the research process. In order to maintain the reliability of the data, I opted for a simple scale in which events were coded based on whether several characteristics (e.g., ethnic Chinese partners) were present or not. I used this presence-codification to plot business events on the relationship-market continuum over time. A coding technique has been applied to allow the different data to be compared where business events displaying characteristics of the relationship-strategy were given positive scores while the presence of market-based characteristics was rated using a negative score.

Coding Strategy

<i>T</i>	<i>Themes:</i>	<i>Rating</i>
T1	Ethnic Chinese Relations	Present (1) / Not Present (0)
T2	Political Connections	Present (1) / Not Present (0)
T3	Foreign Partners	Present (-1) / Not Present (0)
T4	Market-Based Environment	Present (-1) / Not Present (0)

The various codes have been given a label, a description, indicators, examples, and exclusions or special conditions. These are available as a codebook below. In order to combine the codes into a single graph, a scaling procedure was necessary. Scaling means combining scores into a single value. To enable a corporate strategy trend line, the values of all of the scores were averaged per year and plotted on a chart.

Development of Codes

In order to analyse all data and integrate them, a coding system was used based on a combination of deductive and inductive themes and indicators. The coding protocol below is offered for each code a title, definition, description, and examples or exclusions, which together form the codebook for this study.

Code 1 Ethnic Chinese Relationships

Definition The presence of relationships or partnerships with ethnic Chinese businessmen, defined as anyone of Chinese descent.

Indicators Ethnic Chinese partner, business venture in China.

Examples The Salim Group set up a new joint venture with Robert Kuok, a Malaysian ethnic Chinese. Excluded are unclear events like when the former top Salim executive became the CEO of another ethnic Chinese company (since it is not clear that this is a Salim Group initiative, it could have been a personal step taken by the in-house executive).

Rating Present (1) or Not Present (0)

Code 2 Political Connections

Definition Business ventures include a component of political relationships, either with the Suharto family or with a government agency, or political connections linked to the deal are reported, either in Indonesia or in other (Asian) countries.

Indicators	The Salim Group has received a special license or exception from the general rule; media reports bribery or special connections; Salim Group is in business with government-owned firms in Asia or directly with the Suharto family.
Examples	The Salim Group enters into a new business venture with a member of the Suharto family. Indofood receives special license to expand production, despite this being against prevailing regulations; or Salim Group acquires half of Jakarta water utility while the other half is awarded to a Suharto family member in a reportedly opaque process. Reports of connections require multiple sources to avoid relying on rumours. Excluded are one-time rumours.
Rating	Present (1) or Not Present (0)

Code 3 Foreign Partners

Definition	Salim Group business event is linked to a foreign, non-ethnic Chinese and non-Indonesian partner.
Indicators	A Western partner is involved, or a Japanese firm. If a company is simply sold or acquired, one cannot speak of a continued partnership, and those cases are not to be counted.
Examples	Salim Group partners with a German cement company in Indonesia or set up a chemicals firm with a large Japanese multinational.
Rating	Present (-1) or Not Present (0)

Code 4 Market-Based Business Environment

Definition	Salim Group business event is linked to doing business in a market-economy (which includes rule-based economies: US, Japan, Europe, Singapore, Hong Kong, and Australia).
Indicators	The event takes place in one of the above-mentioned countries or regions. Divestments of businesses do not count.
Examples	The Salim Group buys Hagemeyer in the Netherlands.
Rating	Present (-1) or Not Present (0)

The analysis of case data by means of coding procedures can suffer from researcher biases which may unconsciously influence the actual coding. To control for this potential bias the reliability of the coding process is normally tested by using other people's judgements and comparing these with the researcher's judgements. This research worked with *interrater reliability* by measuring the percentage agree-

ment on presence. The formula recommended for this type of presence/non-presence scoring is:³

$$\frac{2 * (\# \text{ times both coder A and coder B saw theme present})}{(\# \text{ times coder A saw it present} + \# \text{ times coder B saw it present})}$$

With regard to the corporate strategy coding procedure, calculating reliability is normally done by means of double coding. An independent coder, unfamiliar to the research has coded all of the business events achieving interrater reliability of between 74% and 77% (scores over 70% are normally considered sufficient).

Using this coding strategy, one can visualise the data in a 'map' which enables one to detect trends in corporate strategy development. In addition to the statistical analysis, the rich case data have also been summarised and analysed using interpretative techniques. The interpretative analysis is used to build a chain of evidence showing why strategy changes occur, how strategy develops, and whether the development of the corporate strategy can be linked to internal or external factors. Interpretative analysis follows a similar pattern of data reduction, visualisation, and building a chain of arguments, but in a qualitative manner. First, a chronological overview is made of the Salim Group strategy in different periods in time. After this, the strategy is interpreted in terms of 'relationship-based' or 'market-based' and expressed in a score on a scale from -5 (market-based) to +5 (relationship-based). These scores are then plotted in a graph using time as the x-axis. In this way, the interpretative analysis will also lead to a visualisation as given in figure 1.1. If 1. the interpretative analysis and 2. the results of the quantitative techniques both point in the same direction, the data offer clear patterns and one can draw conclusions that are supported using different analyses. If the results of the two techniques are opposed, strong conclusions are not possible given the mixed results.

Annex 3 Overview of Salim Group Activities

Agribusiness

- 240,000 hectares of palm plantations in Sumatra, Kalimantan, Sulawesi and Riau, producing 450,000 tons of crude palm oil and 100,000 tons of palm kernel oil annually;
- 50,000 hectares of sugar plantation in Lampung province producing 700,000 tons of sugar annually;
- Pig farms on Bulan island, producing 250,000 heads annually for export to Singapore;
- Large-scale chicken and crocodile farms on Bulan island;
- Orchid nurseries producing 2,000,000 sticks per month for export.

Automotive and shipping

- Annual turnover of 260,000 motorcycles and 75,000 four-wheel vehicles;
- Joint venture with Sumitomo Rubber producing 2.5 million tires annually;
- Leasing and financing company with Ford Credit International;
- Car rental and used-car business;
- Car dealership in California;
- Shipping fleet with capacity of 150,000 dead weight tons.

Chemicals

- 96,000 tons of caustic soda produced annually (inorganic/petro-based);
- 90,000 tons of ethylene dichloride (EDC) annually (inorganic/petro-based);
- Joint Venture with Mitsui produces 82,000 tons of polyvinyl chloride (PVC) annually (inorganic/petrobased);
- Joint venture with Tosoh, production of vinylchloride monomer and PVC targeted to start in 1997 (inorganic/petrobased);

- 150,000 tons alkylbenzene produced annually (inorganic/petro-based); new plant in Vietnam;
- Joint venture with Dow Chemicals produces 30,000 tons of polystyrene annually;
- 90,000 capacity for production of organic/oleochemicals (natural fatty-based alcohol);
- 50% holding in Albright & Wilson for production of sodium tripolyphosphate and surfactants;
- Joint venture to produce ethoxylate with Albright & Wilson;
- Paper-sizing chemical manufacturing with American Hercules;
- Industrial and fresh water supply joint venture with Lyonnaise des Eaux;
- Fabrication of steel storage drums;
- Tank and jetty facilities for chemical plants.

Computers and Communications

- TV station;
- Telecommunication systems;
- Distribution and reselling of computer software and peripherals.

Construction Materials

- Cement manufacturing holding approximately 42% market share;
- Galvanised iron sheet manufacturing with capacity of 90,000 tons annually.

Food and Consumer Products

- Noodles (including a joint venture with Myojo Food); market share 90%;
- Snack and baby food in joint venture with Pepsico Foods, market share 60%;
- Sweetened condensed milk (45% market share) and pasteurised liquid milk (market share 56%);
- Bottling and distribution of Pepsi Cola and other drinks;
- Partnership with Yakult for yoghurt drinks, sales 175 million bottles annually;
- Flour milling with 3 million tons annual capacity, market share 89%;

- Edible oil production with a capacity of 400,000 tons annually, market share 55%;
- Production of 100,000 tons of margarine annually;
- Joint venture with Miwon for MSG production, 65% of this is exported.

International (First Pacific Group)

- Trade and distribution of electrotechnical materials (Hagemeyer, the Netherlands);
- Manufacturing of veterinary products, food, consumer goods and packaging materials, investments in telecom and real estate (Metro Pacific, Philippines);
- Manufacturing of corrugated fibreboard boxes (Steniel Manufacturing, the Philippines);
- Manufacturing of consumer and technical products (Berli Jucker, Thailand);
- Glass container production (Thai Glass Industries, Thailand);
- Distribution of computer hardware, software and related products (Tech Pacific, Australia);
- Telecommunication Networks (Pacific Link, Hong Kong, and Smart Communications, a Joint venture with NTT Japan);
- Banking (First Pacific Bank, Hong Kong);
- Over 50 million square feet of property in Asia (First Pacific Davies, Hong Kong).

International (KMP Group)

- Food and retail businesses (QAF, Singapore);
- Cement (Indocement Singapore);
- Poultry (Kosmo Poultry, Singapore);
- Flour milling (Pacific Flour and Food, China);
- Guangdong Jiangmen Float Glass, joint venture with Nippon Sheet glass and a China state-owned company;
- Equity investment in IUC managing 2.6 million square feet of office space and other property holdings;
- Real estate project in Fuzhou, China and Suzhou;
- Part of consortium in developing industrial parks/infrastructure projects in India and Myanmar.

Multi-industry

- Textile factories with combined annual capacity of 80,000 bales of yarn and 130 million meters of grey fabric;
- Production capacity of 9.2 million pairs of branded sports shoes annually;
- 10,000 tons production capacity of polypropylene film for packaging;
- Joint venture with Rengo (Japan) for packaging;
- World largest producer of mosquito coils with capacity of 9 million Baygon coils annually and a market share of 90%;
- Pharmaceutical products (Darya-Varia Laboratoria, Indonesia);
- Joint venture with Sumitomo in manufacturing of pre-stressed concrete wires, with annual capacity of 46,000 tons.

Natural Resources

- Coal mining in Kalimantan, 800,000 tons of raw coal annually;
- 25,000 hectare concession for coal mining, production of 3.5 tons annually planned; 200,000 hectare in exploration stage;
- 4,100 hectare concession mining 3 million tons of granite;
- Storage, transport of oil and gas products, exploration and production planned in Kalimantan;
- Participation in development of petroleum processing project on Karimun Island;
- 500,000 hectare concession for timber, producing 300,000 cubic meters of wood products annually, mostly for export.

Property and Leisure

- Operation of hotels with 1,600 rooms combined;
- Development of a resort in Manado;
- Resort development on Batam and Bintan islands;
- Golf courses;
- New developments include hospital and housing;
- Operates office space of 75,000 square metres in Jakarta;
- Owns and operates malls and shopping complexes;
- Three industrial estates (East Jakarta, Citeureup, Batam), two under construction.

Trading and Distribution

- Retail: 20 Gelael supermarkets, 129 KFCs, 64 Swensen's ice cream parlours and 130 Indomaret mini-marts;
- Indogrosi wholesale outlets, Super Indomaret supermarkets;
- Indonesia's largest distribution company.

Overview of Salim Group Activities

<i>Division</i>	<i>Subdivisions</i>	<i>Turnover US\$ mln</i>
Agribusiness	Plantations	250
	Livestock	
	Floriculture	
Automotive & Shipping	Automotive	370
	Shipping	
Banking and Financial Services	Bank Central Asia (BCA)	11,000
	International Banking	
	Insurance, leasing, securities	
Chemicals	Inorganic/ Petrobased	1,000
	Organic/Oleochemicals	
	Specialty Chemicals & others	
Computers & Communications	Computers	Unknown
	Communications (TV)	
Construction Materials	Cement	1,100
	Galvanised Iron Sheets	
Food & Consumer Products	Processed Food	2,100
	Flour	
	Edible Oil	
	Consumer Products	
International	First Pacific Group	6,000
	KMP Group	
Multi-Industry	Textile	720
	Footwear	
	Packaging	
	Mosquito Coils	
	Pharmaceuticals	
	Steel	
Natural Resources	Coals	Unknown
	Granite	
	Oil and Gas	
	Forestry	
Property & Leisure Industry	Hotels	Unknown
	Resorts & Golf Courses	
	Real Estates	
	Commercial Buildings	
	Shopping Centers	
	Industrial Estates	
Trading & Distribution	Trading & Retailing	700
	Distribution	

Source: Salim Group Brochure, 1995-1996

Annex 4 Salim Group Executives

The Salim Family

- *Liem Sioe Liong (Soedono Salim)*: Chairman and founder of the Salim Group. Born in Fuqing, China. Is currently retired and lives in Singapore.
- *Anthony Salim*: President and CEO of the Salim Group; director of various Salim Group companies. Son of Liem Sioe Liong. Born in Indonesia. Received a bachelor's degree in the UK.
- *Andree Halim*: In charge of the Singapore/China activities of the Salim Group. Son of Liem Sioe Liong. Bachelor's degree from the UK. Holds board positions in QAF and Peaktop International Holdings.
- *Franciscus Welirang*: Responsible for Bogasari Flour Mills; board member of various Salim companies like Indofood and Indocement; son-in-law of Liem Sioe Liong. Bachelor's degree in the UK.

Other Liem Investors

- *Ibrahim Risjad*: Born in Aceh, Indonesia. Active board member in First Pacific, Indofood, and Indocement. Also board member of the Risjad Salim International Bank.
- *Sudwikatmono*: Born in Indonesia; cousin of Suharto. Board member of various Salim companies such as Indocement, Indofood, First Pacific, Indomobil. Now retired from all board positions.
- *Sutanto Djuhar*: Born in Indonesia. Long-time partner of Liem, from the same clan, but also has own interests, for example in property. Active in several Salim companies such as Indocement, Indofood and First Pacific. Father of Tedy Djuhar.
- *Tedy Djuhar*: Son of Sutanto Djuhar and a member of various Salim company boards such as Indocement and First Pacific.

Professional Managers

- *Eva Riyanti Hutapea*: Public accountant who has also served as a director of several Indofood companies prior to the 1994 merger. Was CEO of Indofood but resigned in December 2003.
- *Manuel Pangilinan*: Born in the Philippines. Became the CEO of First Pacific and later of PLDT in the Philippines. Successfully rebelled against the Salim family when they planned to sell PLDT.
- *Tan Kong King*: Group managing director of QAF in Singapore and board member of numerous privately held companies in Singapore.
- *Hartono Gunawan*: Manages the chemicals division of the Salim Group, and has been a Salim manager since 1982.
- *Angky Camaro*: Key figure in Indomobil, left the group and is currently CEO of Sampoerna.

Notes

Notes Chapter 1

- 1 Taken from Chrisman et al. (2005, p. 2).
- 2 See, for example, La Porta et al. (1999) or Granovetter (1995).
- 3 Earlier works often used the term 'Overseas Chinese'. However the term 'ethnic Chinese' is now considered more appropriate because 'Overseas Chinese' is a term that takes mainland China as a central geographical point of reference. After all, it is from a mainland China perspective that people were considered 'overseas'. It also suggests that the 'overseas' Chinese will at some point return to China, and this is not necessarily the case with Chinese migrants located in Southeast Asia. The discussion on what terms to use partly stems from translations of Chinese characters, but it is beyond the scope of this study to deal with the linguistic roots and use of different Chinese terms for ethnic Chinese migrants in Southeast Asia. In this study I use the term 'ethnic Chinese'.
- 4 For example, Hamilton (1991), Redding (1990), Weidenbaum (1996).
- 5 See Sharma et al. (1997).
- 6 Agency theory (Jensen and Meckling, 1976) assumes that in widely held firms the owners (shareholders) need to monitor whether managers act in the best interest of the firm, rather than in their own self-interest. This issue is widely known as the agency problem (Jensen and Meckling, 1976). Researchers have recently argued that in many emerging markets, businesses are not owned by dispersed shareholders, but rather by concentrated owners, such as families (La Porta, 1999). According to Shleifer and Vishny (1997) concentrated ownership leads to a different type of agency problem, namely the problem of aligning the interests of different shareholders. The controlling family, by virtue of their position as owner and manager, may expropriate minority owners for their own benefit.
- 7 See Gomez and Hsiao (2001).
- 8 See for example Kao (1993); Suehiro (2001) and Zheng (2002).
- 9 The idea that cultural values underpin capitalism can be traced back to Weber's work on Protestant ethics (Weber 1958) and has continued to influence studies of management across cultures. Weber thought that people adhering to Confucian values were incapable of producing a modern type of capitalism. Ironically enough there is now a tendency to link Confucian values to superior capitalist behaviour. This curious academic development shows that cultural values share some of the characteristics of horoscopes and the oracle at Delphi.
- 10 For example, Ahlstrom et al. (2004); Backman (1999); Chan (2000); Douw et al. (1999); East Asia Analytical Unit (1995); Gomez and Hsiao (2001); Hodder (1996); Kao (1993); Redding (1990); Weidenbaum and Hughes (1996); Whitley (1999) and Yeung (2006).
- 11 See, for example, Davies and Ma (2003) or Weidenbaum (1996).

- 12 See, for example, Redding (1990); Douw, Huang and Godley (1999); Crawford (2000); and Jomo and Folk (2003).
- 13 See Hofstede and Bond (1988, p. 8).
- 14 For example, Davies and Ma (2003). Haley et al., (1998) or Yu (2001). Attentive readers may notice that some of these characteristics apply to most small family firms around the world, and may not be so uniquely Chinese.
- 15 As argued by McVey (1992, p. 18).
- 16 See Li et al. (1997).
- 17 See Claessens et al. (1998); Chang (2003) and Morck and Yeung (2003). A pyramid structure occurs when a family holds 51% of firm A, which in turn holds 51% of firm B, which in turn holds 51% of firm C, and so on. The effect of this is, in this example, that the family has majority control over firm C (since it owns 51% of the voting rights) but is entitled to only 13% of the cash flow rights. Large Chinese family businesses grew quickly which made full control of their companies costly, so they sought to limit their ownership in the firm without limiting their control through pyramid structures. Critics argue this structure is prone to stealing from minority shareholders, a practice known as tunneling (Friedman et al., 2003).
- 18 For example, Weidenbaum (1996) or Tsui-Auch (2004).
- 19 See Weidenbaum (1996).
- 20 Most of the critics of the cultural perspective point to recent changes but some historians studying colonial ethnic Chinese firms also find little use for the culturalist approach (Lian and Koh, 2004).
- 21 See, for example, Ahlstrom et al. (2004); Yeung (2000).
- 22 For example, Weidenbaum and Hughes (1996); Brown (1998).
- 23 The concept was invented by Bourdieu (1984) and has also been used within the discipline of management (Adler and Kwon, 2002).
- 24 Such as Redding (1990) and Backman (2001).
- 25 Comparisons have been made by Chirot and Reid (1997), Davis et al. (2001) and Kotkin (1992). Early researchers emphasized the middleman role many such migrants played (Bonacich, 1973). One must note the difference between migrants and minorities. Minorities are not necessarily migrants (for example the native Indian population in the US) nor are migrants necessarily minorities (for example, the Jewish people in Israel), but in the case of the first-generation ethnic Chinese in Southeast Asia, both terms are applicable.
- 26 For a more thorough discussion on 'being Chinese' see: Suryadinata (1997); Godley and Lloyd (2001) or Ong and Nonini (1997).
- 27 The fact that ethnic Chinese are better off than the indigenous populations is a statement informed by statistics and averages. Not all Chinese are rich, and not all indigenous are poor. Of the top 50 largest businesses in Indonesia, however, the majority are controlled by Chinese businessmen. This is unusual given the fact that the ethnic Chinese are a minority.
- 28 E.g., Mackie (1976); McVey (1992); Robison (1986); Suryadinata (1997); Thee (2006).
- 29 See Robison (1986).
- 30 For example Yoshihara (1988). For a more elaborate review of cronyism see Khatri et al. (2006). Crony capitalism may be seen as a special form of corruption (Luo, 2002), and both phenomena are thought to be negative for the development of a nation (Vishny and Shleifer, 1993).
- 31 See Lim (2000).
- 32 For example, Kang (2002).
- 33 See Elson (2001).
- 34 See Dwipayana and Ramadhan (1989).

- 35 See Karady (1997, p. 126).
- 36 For example Rosser (2003); Robison and Hadiz (2004).
- 37 See Chibber (1999).
- 38 See Amsden (1989); Lee (2000) or Park (2002).
- 39 According to Kang (2002).
- 40 See Schwarz (1997, p. 129).
- 41 See, for example, Granovetter (1992); Kotkin (1992); Lever-Tracy (2002) and Backman (2001).
- 42 See Liu (1998).
- 43 For example, Rauch and Trindade (2002).
- 44 See Weidenbaum and Hughes (1996).
- 45 For example, Douw et al. (1999).
- 46 For example, Dahles (2005); Ong and Nonini (1997) or Yeung (1997).
- 47 See Chen and Chen (2004) and Xin and Pearce (1996) and for the link between Confucian values and guanxi Yeung and Tung, see (1996).
- 48 For example, Sunarjo and Cone (2005). Strictly speaking, *guanxi* does not necessarily lead to bribes, it is very well possible, and indeed very common around the world, to maintain completely legal reciprocal personal relationships by exchanging favours.
- 49 For example, Nahapiet and Ghoshal (1998); Oh et al. (2004) and Uzzi (1997).
- 50 See, for example, Lim (2000); Liu (2001) or Portes and Sensenbrenner (1993). Blyler and Coff (2003) note that social capital is not necessarily used to benefit the firm, personal relations can also be used for personal gain.
- 51 See, for example, Putnam (2000); Adler and Kwon (2002).
- 52 See, for example, Hite (2005); Keister (2001) and Luo and Chung (2005).
- 53 See, for example, Chung (2005) and Peng (2003).
- 54 See, for example, Khanna and Palepu (1999).
- 55 Prominent scholars include Scott (1995) and North (1990).
- 56 See, for example, Carney (2004); Hoskisson et al. (2000); Khanna and Palepu (2000); Kim et al. (2004); Peng (2002); Peng and Heath (1996) and Wright et al. (2005).
- 57 See, for example, Granovetter (1995); Khanna and Palepu (1997 and 1999); Kock and Guillén (2001), and Peng (2003).
- 58 See for, example, Khanna and Palepu (2000).
- 59 For example, Lincoln et al. (1998).
- 60 For example, Park (2002).
- 61 For example, Kim et al. (2004).
- 62 According to Scott (1995).
- 63 Initially formulated by Williamson (1985).
- 64 See, for example, Butler et al. (2003); Carney (2005); Casella (1999); Hitt, et al. (2002); Jones et al. (1997); Landa (1991); Peng et al. (2002); Rauch (2001); Xin and Pearce (1996), and Wu and Choi (2004).
- 65 E.g., Claessens et al. (1999); Hoskisson and Hitt (1990), and Martin and Sayrak (2003).
- 66 The concept economies of scope was developed by Panzar and Willig (1981) and further elaborated upon by Chandler (1990) and more recently by Helfat and Eisenhardt (2004).
- 67 See for example Peng (2003); or Peng, Lee and Wang (2005).
- 68 See Peng and Zhou (2005).
- 69 Not all small ethnic Chinese firms develop into mega-conglomerates, in fact most don't. The approach is to develop a model of the historical development of large ethnic Chinese family business groups, rather than a deterministic account of how small firms should develop.

- 70 See Peng (2003).
- 71 I adopt this concept from Thomas, Kaminska-Labbé and McKelvey (2005), but other authors such as Brown and Eisenhardt (1997); March (1991, 1999) and Nickerson and Zenger (2002) also have adopted the idea that organisations continuously shift because of certain strategic dilemmas.
- 72 Prominent authors in this field are Beckert (1999); Child (1997); Child and Tsai (2005) and Oliver (1991).
- 73 See for example Limlingan (1986).
- 74 For example Hamilton (1991); Kotkin (1992); Lever-Tracy (2002); Redding (1990) and Yu (2001).
- 75 See Ahlstrom et al. (2004); Bruton et al. (2003); Carney (1998); Carney and Gedajlovic (2003).
- 76 See Garud and Karnoe (2001).
- 77 For example, Carney and Gedajlovic (2003); Davies and Ma (2003).
- 78 See Child and Tsai (2005).
- 79 See Limlingan (1986), Sato (1993) or Suehiro (2001).
- 80 See Child and Tsai (2005) and Ackoff (1974). Oliver (1991) speaks of manipulative strategies to influence the environment.
- 81 See, for example, Ehrlich and Raven (1964); Nitecki (1983) or Thompson (2005).
- 82 Such as Thompson (2005).
- 83 For example, Lewin and Volberda (1999); McKelvey (1997 and 2002); Murmann et al. (2003); Röttmer and Katzy (2005); Tan and Tan (2005); and Volberda and Lewin (2003).
- 84 For example, Scott (1995).
- 85 The literature on strategic intent has been summarised in a recent article (Child, 1997). In addition, earlier scientists subscribing to a pragmatist view have also explored the idea of organisations as purposeful systems (Ackoff and Emery, 1972).
- 86 There are now several studies on institutional entrepreneurs (Dacin et al., 2002; DiMaggio, 1988; Garud et al., 2002; Greenwood & Suddaby, 2006; Kondra and Hinings, 1998)
- 87 E.g., Djelic and Ainamo (1999); Haveman and Rao (1997); Jones (2001); Lampel and Shamsie (2003).
- 88 See Carney and Gedajlovic (2002).
- 89 There is one study of a single Brazilian firm in the telecommunication industry (Rodrigues and Child, 2003) but this study did not document a direct influence of the company on Brazilian national institutions.
- 90 For example Redding (1990).
- 91 Such as Weidenbaum and Hughes (1996) or Haley (1997). There are also exceptions to this, for example, Sato (1993) and Robison (1986), both of whom have done detailed empirical research on large Indonesian Chinese business groups and their development over time. Despite this Gomez and Hsiao (2001) have argued for more empirical research on ethnic Chinese business groups.
- 92 For example, Claessens et al. (1999).
- 93 See, for example, Eisenhardt (1989).
- 94 A proponent of this view is activist/academic George Aditjondro (*Business World*, 1999).
- 95 Generally, the research design followed the procedures for case research as recommended by Yin (2003).
- 96 See Boyatzis (1998).
- 97 To appreciate the completely opposite extremes represented here I note that more than one respondent in favour of the 'cronies' position insisted that my research was so dangerous that I should be worried about possibly being murdered by the Salim

Group; while at the other end of the spectrum a board member of a European multinational stated that the Salim Group was their best Asian partner, and that the leadership were their personal friends.

98 See Peng (2003).

99 For example, Peng (2003) and Peng and Zhou (2005).

100 In this definition, I assume corporate strategy means the actual direction a corporation. Within strategy research a distinction is sometimes made between strategy formulation and strategy implementation; or between strategy process (how strategies come about); strategy content (the product of a strategy process) and strategy context (set of circumstances). In this research, I address corporate strategy content within its context. For a discussion on different approaches to strategy, I refer to Meyer and de Wit (2004).

Notes Chapter 2

- 1 See Sato (1993). Fuqing is sometimes spelled Futsing.
- 2 Although some sources mention the year 1936 (e.g., Robison, 1986), two comprehensive studies of the Salim Group by Sato (1993) and Soetriyono (1989) both indicate that Liem left China in 1938.
- 3 Suryadinata (1995, p. 139) reports that Liem ran a noodle shop.
- 4 According to Soetriyono (1989). The Dutch colonial spelling is '*Koedoes*'.
- 5 Although there has been Chinese migration since the third century B.C. (Wang, 2000), it is generally believed that 'the structure of the Chinese community in Indonesia today started to develop only after the advent of Dutch colonialism in the region' (Onghokham, 1989, p. 52).
- 6 In fact, the use of the words *peranakan* and *totok* is more complex. Sometimes *totok* is also used for people who were born in Indonesia but are less assimilated and culturally closer to China. *Totok*, which means newcomer, has also been used for Dutch newcomers to Indonesia, but in this book, it refers to those Chinese migrants in Indonesia born in China. Another term used for new Chinese migrants is *sinkeh*.
- 7 See Onghokham (1989).
- 8 See Cheng (1986).
- 9 This dialect group specialisation existed until approximately 1970 (Post, 1997).
- 10 The *hokchia* dialect group is often analysed together with the *xinghua* group (sometimes spelled *hengua*), which comes from neighbouring areas in Fujian Province in China.
- 11 See, for example, Post (1997).
- 12 See Coppel and Mackie (1976).
- 13 As noted by Twang (1998).
- 14 See Coppel and Mackie (1976).
- 15 See Lloyd (2001).
- 16 The tensions arising from the fact that a small ethnic minority holds such an important economic position is often referred to as 'the Chinese problem' or in Bahasa, Indonesia '*masalah Cina*'.
- 17 See Twang (1998).
- 18 According to Vlasblom (1993). Antons-Sutanto (2001) further notes that the *totok* family is more like a traditional Chinese family with a core of family members (usually father and sons) and a looser group of relatives around the core. The line between family and business is usually not clear among the *totok*.
- 19 See Robison (1986).

- 20 It is not completely clear when this name changed, but my interview results show that it probably occurred in the 1960s. This is likely because in 1968, the Chinese were pressured to integrate into Indonesian society and adopt Indonesian names (Elson, 2001)
- 21 According to Soetriyono (1989).
- 22 See Twang (1998).
- 23 According to Soetriyono (1989).
- 24 According to Vlasblom (1993). This is not unlikely since the business environment for Chinese was difficult during that period. Mackie (1976) notes that sporadic attacks on Chinese occurred during periods where the established authorities lost control, for example, at the end of the Japanese occupation and in the period 1945-1949.
- 25 Interviewed in *Tempo* (1984). Author's translation.
- 26 See Twang (1998).
- 27 According to Post (1997, p. 148).
- 28 See Soetriyono (1989).
- 29 According to Robison (1986). Some sources (Bresnan, 1993) also speak of smuggling trade between Singapore, which was a widespread practice in those times. Robison notes that one source speaks of smuggling arms, but the author was unable to either track this source or confirm this. Soetriyono (1989) quotes Liem denying this.
- 30 According to Elson (2001, p. 22).
- 31 See CISI Rama Utama (1989).
- 32 See Soetriyono (1989).
- 33 Dutch companies were nationalised in 1957/8 followed later by British, American and other foreign capital between 1963 and 1965.
- 34 An example of the difficult business environment is the confiscation of the Indonesian assets from the largest Chinese-Indonesian conglomerate at the time, the Oei Tiong Ham concern, in 1961.
- 35 Many of the importers received a license because of their alliances with the political power, and many 'importers' sold their licenses to others, often of Chinese descent. Thus, 'what was being consolidated was not an indigenous merchant bourgeoisie but a group of licence brokers and political fixers' (Robison, 1986, p. 45). An arrangement where an indigenous person ('*ali*') acts as the frontman for a Chinese person ('*baba*') to avoid or make use of certain regulations is often called the '*ali-baba construction*'.
- 36 See Dick (2002, p. 185).
- 37 According to Elson (2001, p. 64).
- 38 Until the Great Depression of the 1930s, East and Central Java played a vital role in the colonial economy, but Dick (2002) argues that one impact of the depression was that Jakarta emerged as the economic center.
- 39 See Crouch (1978, p. 22).
- 40 See CISI Rama Utama (1989, p. 400).
- 41 Quotes stem from the author's interviews with Anthony Salim. All further quotes also stem from interviews unless indicated otherwise.
- 42 Interview with Liem Sioe Liong and Anthony Salim in *Tempo* (1984). Author's translation.
- 43 According to the 2003 BCA Bank's annual report, it was first established in 1955 as a knitting company. The name changed several times, and the company started its banking operations in 1957, the year that Liem acquired the company. The company was renamed P.T. Bank Central Asia in 1974.
- 44 See Post (1997).
- 45 See Robison (1986, p. 297).

- 46 This is confirmed in several interviews with former policymakers and researchers. An exception being the Oei Tiong Ham concern, but this large company was nationalised in 1961.
- 47 The power transition from Sukarno to Suharto started in 1965, when Suharto, then commander of the Kostrad (strategic army command), emerged as the strong leader (Dick, 2002). This happened through a coup of which the details remain somewhat unclear until this day. On 11 March 1966, Sukarno signed a decree giving Suharto considerable power, but Suharto did not officially become the acting president until 1967, and officially was inaugurated as Indonesia's second president in 1968 (Thee, 2002).
- 48 According to Hofman et al. (2004).
- 49 See Elson (2001, p. 162).
- 50 The company was later renamed P.T. Waringin Kencana (Sato, 1993). In the period until the end of the 1980s, Liem's business group was also called the Waringin Kencana Group.
- 51 See Crouch (1978) or Robison (1986).
- 52 Argued by Sato (1993).
- 53 In fact, Sudwikatmono was almost Suharto's step-brother as the latter had spent part of his formative years in Sudwikatmono's family.
- 54 A CISI study of business groups (1989) confirms that Sudwikatmono and Risjad joined the group in the late 1960s as new shareholders, but claims that Djuhar Sutanto had already joined the group earlier.
- 55 These activities were very substantial. For example, Pertamina, the oil company, was under direct army control and in fact run as a profit centre for the army. Other institutions like Bulog (state logistics company) and Berdikari also provided the army with funds from economic activities. The army's 'fundraising' activities were more centralised by the end of the 1960s by the establishment of registered companies owned and controlled by the army. 'Most of these military sponsored enterprises were in fact operated by Chinese businessmen, with the military partners ensuring that the necessary licenses and "facilities" were available and providing "protection" when illegal activities were involved.' (Crouch, 1978, p. 284).
- 56 Elson, 2001, p. 192.
- 57 According to Crouch (1978). Robison (1986, p. 163) writes that Bank Windu Kencana was owned by Liem and later transferred to the ownership of the Yayasan Dharma Putra in 1968, although reportedly still managed by Liem.
- 58 See Elson (2001).
- 59 See Crouch (1978).
- 60 See Robison (1986).
- 61 According to Bresnan (1993, p. 127).
- 62 See Hofman et al. (2004).
- 63 According to Robison (1986) and Sato (1993). The annual revenues from P.T. Mega and P.T. Waringin Kencana grew at an annual average rate of US\$ 1.2 million between 1971 and 1980 (Sato, 1993).
- 64 The start of operations are the years mentioned in an interview with Anthony Salim. When confronted with the fact that other sources sometimes show different years of establishment, the explanation by one of the Salim Group's leading managers was that companies were sometimes set up a few years earlier than real operations started. According to another source that looked at the establishment of the companies (Sato, 1993) activities in flour milling started in 1969, cement in 1973, automobile in 1971.

- 65 Crouch (1978) reports, for example, that the flour milling activities, which were associated with a foundation controlled by Mrs. Suharto, received credit approval from the Bank of Indonesia only five days after application.
- 66 Partners in the automotive sector were Japanese companies like Hino, Mazda and Suzuki. Nihon Cement and Taiwan Cement were partners in Indocement, and US Steel was a partner in the Krakatau Cold Rolling Steel venture (Robison, 1986).
- 67 Mochtar Riady (also a *hokchia*) had been asked by Liem to take care of the management of the BCA which subsequently grew rapidly under his leadership. The two Suharto children held a substantial number of shares in the BCA Bank. In 1998, when the bank collapsed, they jointly had 30% of the shares. Mochtar Riady established his own group called the Lippo Group and left BCA in 1990 (Sato, 1993). Ciputra, an Indonesian businessman, also has his own business group called Metropolitan Group.
- 68 See CISI Rama Utama (1989, p. 400).
- 69 Quoted in *Tempo* (1984). Author's translation.
- 70 Quoted in *Tempo* (1984). Author's translation.
- 71 The Malari riots occurred at the occasion of the visit of Japanese Prime Minister Tanaka in January 1974.
- 72 See Bresnan (1993).
- 73 See Sato (1994).
- 74 See Hofman et al. (2004).
- 75 According to Anthony Salim in an interview, Robison (1986) and Sato (1993).
- 76 See for example *The Economist* (1990).
- 77 Both quotes stem from an interview with *Tempo* (1984). Author's translation.
- 78 According to Bresnan (1993, p. 250), 'the import monopolies collected a commission of US\$ 20 per ton and a 'handling fee' of 2.5% of the value'. In 1984 and 1985, Indonesia imported more than US\$ 400 million in cold-rolled steel.
- 79 See Sato (1993, p. 413).
- 80 See Sato (1993, p 412-413).
- 81 Asswansi Java Central Asia Raya should probably be Asuransi Jiwa Central Asia Raya, a company mentioned in other sources such as Soetriyono (1989).
- 82 See *Tempo* (1984). Author's translation.
- 83 Interview with an executive of Astra, a competitor of Indomobil.
- 84 According to a leading newspaper, Sudwikatmono 'confirms Salim chairman Liem Sioe Liong helped bail out PT Bank Duta after 1990 scandal' (*Asian Wall Street Journal*, 1994). This was also reported by Elson (2001, p. 252). It is likely that other such transactions also occurred, although these were often done in a discreet manner, and not well published. Liem also helped pay for the gambling debts of Suharto's eldest son, according to some unconfirmed reports.
- 85 See, for example, Dick (1985).
- 86 Sato (1994) estimates the turnover at over 1 trillion rupiah, which is the equivalent of US\$900 million at that time with an average annual rupiah rate of 1111 in 1985.
- 87 Soetriyono (1989) lists 192 companies in: trade, finance, construction/real estate, automotive, metal, food, textile, chemical, forestry, cement, pharmaceutical, electronics, glass, plastic, mining, surveys, holding companies, and others.
- 88 Elson, 2001, p. 250.
- 89 See Wilson and Williamson (1992, p. 2).
- 90 According to the *South China Morning Post* (1997).
- 91 Excerpt from *Tempo* (1984). Author's translation. Liem mentioned that this motto is what he wanted to pass on to his children.
- 92 The stock exchange opened in 1977, but only 24 companies were listed until 1988. See, for an analysis of the economic policies with regard to financial markets in Indonesia from 1966-1990, Cole and Slade (1992).

- 93 The result of the listing was that Indocement started to make profits again.
- 94 According to Mackie and Sjahrir (1989, p. 23).
- 95 Darya-Varia is a pharmaceuticals company owned through First Pacific Company in Hong Kong. It was listed on the Jakarta Stock Exchange in 1994, and was disposed of by First Pacific after the Asian Crisis.
- 96 Indomobil was listed on the stock exchange by a so-called 'backdoor listing'. The Salim Group merged Indomobil with its already listed P.T. Indomulti Inti Industri, renamed it and sold the original Indomulti assets back to itself. (*Jakarta Post*, 1997b).

Notes Chapter 3

- 1 According to the Asian Development Bank Key Indicators 2004, the Indonesian GDP growth was 7.5% in 1994; 8.2% in 1995 and 7.8% in 1996. Available at www.adb.org/statistics, [accessed 6 January 2005].
- 2 See Thee (2002).
- 3 According to Feridhanusetyawan (1997).
- 4 According to Lindblad (1997). Japan also topped the list of foreign investors with 23% in the period 1967-1996.
- 5 See Pomerleano (1998).
- 6 See World Bank (1993).
- 7 See the First Pacific Annual Report 1996, p. 9.
- 8 Early influential articles were an article by Kao (1993) in *Harvard Business Review* and an article by Kraar (1994) in *Fortune Magazine*. The East Asia Analytical Unit of the Australian Department of Foreign Affairs published a report on the overseas Chinese in 1995 that was well covered in the international press, and followed up by numerous articles. These articles established the idea that the Chinese owned a disproportionate share of the wealth and economic power in Southeast Asia. Later books like Weidenbaum and Murray (1996) analysed the ethnic Chinese as one regional power, with strong links to China. Academic studies also followed.
- 9 Fane and Condon (1996) have surveyed the level of protection enjoyed by certain sectors. Apart from the heavily protected automotive industry, other sectors like livestock and plastics also enjoyed similar protection.
- 10 See Feridhanusetyawan (1997).
- 11 Japan launched a complaint at the WTO over the protective measures offered for the production of the car named Timor. The national car project encountered many difficulties, and was considered an embarrassment. When the problem was to find a manufacturing location, Indomobil, a Salim company, provided a plant where the car could be assembled. (*Financial Times*, 1997a).
- 12 See Manning and Jayasuriya (1997, p. 17).
- 13 According to the *Australian Financial Review* (1995b).
- 14 In 1995, large Indonesian conglomerates held a meeting about alleviating poverty, which was described by the press as being a reaction to government plans to issue new competition rules to limit conglomerate power. (*Financial Times*, 1995b). The meeting, which was actually initiated by the government, resulted in the so-called Bali Declaration which aimed at alleviating poverty by supporting small business growth. The decree issued by Suharto, however, apparently went further than the conglomerates had intended. It required all large domestic companies to donate 2% of their earnings (*Financial Times*, 1996).
- 15 See for example Yeung (2000).
- 16 See *Financial Times* (1995a).

- 17 The effect was that reliable estimates of investments of the Salim Group in China were hard to obtain. For this reason, I had to rely on media and on interviews.
- 18 The Fujian Asia Bank was set up as a 50-50 joint venture with the Bank of China to introduce overseas investment opportunities to Chinese enterprises, as well as promote foreign investments into China (*Nikkei Weekly*, 1993). It remained a small bank and was later sold to Ping An Insurance and renamed Ping An Bank (*Financial Times*, 2003a).
- 19 According to the *Australian Financial Review* (1995a).
- 20 See the *Weekend Australian* (1995).
- 21 See Sato (1993).
- 22 A Japanese newspaper reported: 'The largest individual contributor to the national coffers last year was Liem Sioe Liong, founder of the Salim Group. In fact, taxpayers from Salim, Indonesia's biggest conglomerate, swept the top five positions. Suharto's first cousin Sudwikatmono, a founding shareholder in Salim, came in seventh' (*Nikkei Weekly*, 1994).
- 23 For example, Soetriyono (1989) or Lever-Tracy (2002).
- 24 In 1996, Liem received a doctorate honoris causa from the Wharton School, University of Pennsylvania, according to the 1997 Indomobil Annual Report. This was apparently connected to Anthony Salim's US\$1.6 million gift by to the Wharton School for a professorship named after his father and First Pacific Company (*Wharton Alumni Magazine*, 1996).
- 25 According to Sato (2004) and a Salim Group brochure. The term 'division' may suggest that the group was established under a single umbrella or had a legal status as a group, but this was in fact not the case. As explained previously, the Salim Group consisted of a variety of separate legal entities under ownership of the Salim family and partners.
- 26 This is a term used by the Salim Group for 'other manufacturing activities'. It includes diverse activities such as sport shoe, textile, and galvanised iron sheet manufacturing.
- 27 To my best knowledge the brochure published in 1996 is the latest promotional material on the Salim Group as a whole.
- 28 According to Sato (1993; 1994; 2003). Calculated in US\$ using the historic annual average rupiah rates.
- 29 The GDP in 1996 at current market prices was 532 trillion rupiah. (Asian Development Bank) www.adb.org/statistics. [accessed 6 January 2005].
- 30 These turnover figures were mentioned in: *Financial Times*, 1994; *Australian Financial Review*, 1994; *Australian*, 1995b; *Australian*, 1996a; *Australian*, 1996b. Other newspapers reported similar figures.
- 31 There is a rather large discrepancy between the 1995 figures quoted by newspapers and those by the Salim Group (11 vs 20 billion), but a plausible explanation could be that the figures mentioned in newspapers lag behind those published by the Salim Group itself.
- 32 See *Tempo* (1984). Author's translation.
- 33 Quoted in *Tempo* (1984). Author's translation.
- 34 Figures for Indomobil and BCA were not available for the period, The Indomobil Group was only listed on the Jakarta stock exchange in 1997 and BCA in 2001.
- 35 Although the listed companies were not heavily engaged in exporting, this does not apply for the private companies. Some of those mainly produced for export, such as shoes, flowers, meat, and shrimp.
- 36 See for example the *Australian* (1995a).
- 37 For 1996, the listed companies under the First Pacific umbrella were (company name (country of listing) economic interest attributable to subsidiary company in %):

- Hagemeyer N.V. (Netherlands) 38.1%; Berli Jucker Company Ltd. (Thailand) 57.5%; P.T. Darya-Varia Laboratoria (Indonesia) 51.4%; Metro Pacific Corporation (Philippines) 63.7%; FPB Bank Holding Company Ltd. (Hong Kong) 51%; PDCP Development Bank Inc. (Philippines) 21.8%.
- 38 After the Asian Crisis, the Salim Group handed over a large number of companies to the Indonesian government, who subsequently sold them. Because of this sales process, information on the structure of the various companies was published. It became evident that the companies were organised in sub-groups of operating companies under the umbrella of at least one, but often more holding companies (Holdiko, 1999, 2001).
- 39 According to a Jakarta analyst interviewed for this study the shares in the toll road operator were given as a payment for the delivery of cement to construct the toll-road.
- 40 A Hong Kong Newspaper reported in 1994: 'First Pacific Co subsidiary Darya-Varia Laboratoria has agreed to buy stakes in two Indonesian companies for 8.5 billion rupiah (about HK\$ 32 million). It has signed an agreement to buy 50 per cent of the shares in Central Sari Medical Supplies and 49 per cent of the shares in Gelatindo Mukti Graha.' (*South China Morning Post*, 1994). Both companies were mentioned in a list of Salim Group companies in 1989 (CISI, 1989)
- 41 According to the First Pacific Annual Report, 1996.
- 42 See *Asia Pulse* (1997).
- 43 See, for example, the *Chemicals Business Newsbase* (1997).
- 44 In this case, the related parties are not only Salim Group companies, but also companies linked to other major UIC shareholders such as the Wings Group.
- 45 This pyramid structure is also evident in the companies transferred to Holdiko. Virtually all of the companies handed over to the Indonesian government had one or more holding companies (Holdiko, 1999, 2001).
- 46 P.T. Inti Salim Corpora was established in 1983 and had registered capital of just 100 million rupiah, the owners were Anthony Salim and Andree Halim with 50% each (Berita Negara, 1998).
- 47 Indonesia follows the Dutch two-tier board system consisting of a board of directors and a supervisory board which consists of commissioners. Hong Kong and Singapore have a one-tier board with executive and non-executive members.

Notes Chapter 4

- 1 Of the 214 companies listed on the Jakarta Stock Exchange, 128 companies reported a loss for the first months of 1998 and 53 companies reported negative equity (Zhuang et al., 2001).
- 2 See Zhuang et al. (2001).
- 3 See Pomerleano (1998).
- 4 See IMF (2004).
- 5 Thee, 2003, p. 189.
- 6 Reported in the *Financial Times* (1997b).
- 7 See Van Dijk (2002).
- 8 Even before the Asian Crisis erupted, there were already high levels of Non-Performing Loans in the Indonesian banking sector (Zhuang et al., 2001; Feridhanusetyawan, 1997).
- 9 An investigation by the Supreme Audit Agency later revealed irregularities in the liquidity credits provided by Bank Indonesia to several banks (totalling over US\$ 20 billion). BCA was one of the largest recipients of liquidity support. It was suggested

that bank owners had used the capital injections to speculate on foreign exchange rather than using it to increase the Capital Adequacy Ratio (CAR) of their banks (*AFX Asia*, 2004). But the Bank of Indonesia was not above criticism either. At the end of 1997, much of the management changed after accusations of corruption (Van Dijk, 2002, p. 84)

- 10 The legal lending limit for lending to affiliated companies was a maximum of 20% but this was violated by many banks owned by Indonesian conglomerates.
- 11 Several interviews and also the literature (e.g., Soesastro and Basri, 1998) confirm that conglomerates, in fact, used their banks to collect money from the public and subsequently lend to their own group companies. However, most of those people also say that the Salim Group (including BCA) was much better run and more professional than other banks.
- 12 There were many instances where Suharto reversed his decisions, which adversely affected his relatives' or friends' business interests. One reason for doubting Suharto's commitment to the implementation of the IMF packages is worth noting here. The closure of 16 banks also included Bank Andromeda, a bank 25% owned by Bambang Trihatmodjo, Suharto's son, who was furious and at first threatened to sue the minister of finance. Within a short period however, Bambang was able to buy another bank, Bank Alfa (*Wall Street Journal*, 1997). This bank was bought from Albert Halim (Liem Sioe Liong's son) after an asset swap took place. Bank Alfa's assets and liabilities were transferred to the Bank Risjad Salim International (also under the Salim Group) and the assets and Bank Andromeda liabilities were inserted (Van Dijk 2002, p. 89). Apparently the Salim Group was again helping out old friends.
- 13 See, for example, Soesastro and Basri (1998) and Van Dijk (2002).
- 14 See, for example, *Associated Press* (1998a).
- 15 Rumours circulated that the riots had been organised, particularly those in the vicinity of Liem Sioe Liong's house (Van Dijk, 2002).
- 16 *South China Morning Post*, 1999c. The most likely reason why the range of estimated capital flight is so broad is that there were no statistics. The source also mentioned that the figure was more likely to be closer to US\$10 billion.
- 17 These KKN scandals were numerous. The Bank Bali scandal led to the detention of the governor of the central bank. The case of Texmaco, another conglomerate, revealed that Suharto intervened directly to enable this conglomerate to obtain loans, although this was against the prevailing regulations. The Bulog (state logistics agency) scandal provided another case of KKN.
- 18 McLeod, 2000, p. 5.
- 19 See Thee (2002, p. 186).
- 20 Newspapers reported rumours of the Salim Group planning to buy a controlling stake of San Miguel for US\$1.6 billion (*Australian*, 1997), Manuel Pangilinan, CEO of First Pacific, reported that 'we bought 2% of the company in 1997 for approximately US\$ 70 million as a toehold to possibly acquiring a major equity position'. (*Annual Report First Pacific*, 1997). Negotiations with other shareholders, including the Philippine government, did not succeed, and therefore the acquired shares were subsequently sold. The transaction with Bank Danamon involved US\$84 million (*Jakarta Post*, 1997c) and also involved CSFB as a partner, but was cancelled on 6 April 1998 because of 'recent developments' i.e., the unfolding crisis (*Jakarta Post*, 1998a).
- 21 The turnover of QAF in 1997 was only US\$224 million, whereas Indofood reported a turnover of US\$1.7 billion in the same year according to annual reports of both companies.
- 22 See, for example, *Jakarta Post* (1997a).
- 23 E.g., *Bisnis Indonesia* (1997); *Sinar* (1997); *Forum* (1997).

- 24 It is possible that the sudden moves to influence the composition of the board of Jurong Cement Limited (a Singapore listed cement maker in which the Salim Group held a 20% stake) were connected with these plans (*Business Times*, 1997).
- 25 See *Business Week* (1998).
- 26 *New York Times*, 1999.
- 27 Because of the long queues for withdrawing money BCA became known as Bank Capek Antre (Tired of Queuing Bank) (Van Dijk, 2002, p. 194).
- 28 *Jakarta Post*, 1998b.
- 29 According to a Salim manager, the Salim family handed over the bank on 20 May 1998.
- 30 *Associated Press*, 1998b.
- 31 According to Finance Minister Bambang Subianto (*Asia Pulse*, 1998b).
- 32 The drinking water contracts for Jakarta were divided between the Salim Group (partnering with Suez Lyonnaise des Eaux) and Suharto's son Sigit (with Thames Water). Because the contracts were awarded in a non-transparent way, crony capitalism was assumed, and they came under pressure. (*Australian*, 1998). Suez Lyonnaise des Eaux cancelled its joint venture with the Salim Group and took 100% ownership of the company managing the west Jakarta water supply.
- 33 *Jakarta Post*, 1998c.
- 34 According to the 1997 First Pacific Company's annual report.
- 35 This acquisition aroused some criticism, since a Salim-controlled company was paying so much while still owing billions of dollars to the Indonesian government. Rizal Ramli, who later became minister of economic affairs, commented that this showed that the Salim Group had money to pay the government (*Jakarta Post*, 1998c).
- 36 The deal first included Nissin, but was blocked by creditor after which Nissin pulled out. First Pacific went ahead and tried to achieve a controlling stake in Indofood alone. The stake was sold by the Salim family for a big discount (*Financial Times*, 1999). Minority shareholders of First Pacific approved acquiring a 40% stake of Indofood for US\$ 600 million. In subsequent years they built a majority stake in the company which was achieved in 2002.
- 37 The Indonesian name was Badan Penyehatan Perbankan Nasional (BPPN).
- 38 To illustrate IBRA's importance: in May 2000 it managed assets valued at US\$53 billion (IBRA monthly newsletter, June 2000) while Indonesian GDP was around US \$150 billion in 2000. Of course this made the institution an interesting target for all kinds of people inside and outside the organisation trying to get a piece of the pie. IBRA complained that the government interfered with their task. Several irregularities were revealed at IBRA (Van Dijk, 2002).
- 39 See IBRA (1999).
- 40 See, for example, *Asia Pulse* (1998a).
- 41 See, for example, *New York Times* (1998).
- 42 The total obligations of the Salim Group to IBRA were over 50 trillion rupiah (approximately US\$5 billion) but the sales value of the surrendered assets was only 20 billion (*Financial Times*, 2000b). The reason for this lower value could have been due to the value of assets falling in value over time; and/or due to the value of the assets having been inflated at the time of surrender in 1999.
- 43 According to statements by Temenggung, then head of IBRA, at a press conference on 11 July 2002 (*AFX Asia*, 2002).
- 44 The figures given in the Holdiko report do not add up to 100%, but it is not clear to the author why.
- 45 IBRA 2000a; 2000b.
- 46 According to the *Financial Times* (2000a). This lack of interest spurred *Business Week* (2000) to publish an article under the title 'Crony bank, anyone?'

- 47 Belgian retailing group Delhaize bought 49% of Shop 'n Save (previously under QAF) for approx. US\$ 14.5 million (*South China Morning Post*, 1999a).
- 48 See, for example, *South China Morning Post* (1999a).
- 49 The end-of-year rupiah rate for 1999 stood at 7085 while the 2000 rate was 9595, so there is a substantial difference. Because the exact sales date of the assets was not always clear, I've used the 2000 rate for all transactions.
- 50 See *AFX Asia* (2001).
- 51 MSAA means Master Settlement and Acquisition Agreement, which regulated the transfer of assets from ailing conglomerates that had their banks recapitalized by the government to IBRA. BPPN is the Indonesian acronym for the Indonesian Bank Restructuring Agency (IBRA).

Notes Chapter 5

- 1 According to the ADB key economic indicators for Indonesia the GDP growth rates were 3.5%; 3.7% and 4.1% respectively in 2001, 2002 and 2003. Available at www.adb.org/statistics [accessed 6 January 2005].
- 2 See IMF (2004).
- 3 See Athukorala (2002).
- 4 See, for example, Dick (2001).
- 5 Indofood had plans to spin off Bogasari since 1999. One of the reasons for the spin off mentioned by analysts was the new anti-monopoly law implemented after the crisis, another reason was to raise money to pay of debts. Citing low price, Indofood has so far deferred its plans to spin off Bogasari.
- 6 During its 5 years of existence IBRA had seven different chairmen, namely: Bambang Subianto, Radius Prawiro, Glenn Yusuf, Cacuk Sudarjanto, Edwin Gerungan, I Putu Gede Ary Suta, and Syafruddin Temenggung.
- 7 See Pangestu and Goelton (2001); Siregar (2001).
- 8 See *Business Week* (2003).
- 9 See for example *United Press International* (2002). In order to dispose of its shares in Indosiar, IBRA initiated an IPO. On 22 March 2001 the company was listed at the Jakarta Stock Exchange. On 28 November 2001, IBRA and Holdiko announced they had sold 49% of the shares to TDM Aset Manajemen, a newly formed company. The sale of 72.63% ownership in Indomobil was announced on 5 December 2001. The buyer was a consortium led by Trimegah Securities. People close to Anthony Salim have confirmed these rumours.
- 10 The transaction to sell the Holdiko ownership of Indocement shares to Heidelberger Cement was finalised on 18 April 2001.
- 11 The Monthly IBRA Newsletters in this period were reviewed. (IBRA, 2001a, 2001b, 2001c, 2001d, 2001e, 2001f, 2001g, 2001h, 2001i, 2001j, 2001k, 2001l, 2002a, 2002b, 2002c, 2002d, 2002e, 2002f, 2002g, 2002h, 2002i, 2002j, 2002k, 2002l, 2003a, 2003b, 2003c, 2003d, 2003e, 2003f, 2003g, 2003h, 2003i, 2003j, 2003k, 2003l). Calculated into US dollars, using the end-of-year rupiah rate for 2003. The list of asset sales does not appear to be complete if compared with the companies that were handed over by the Salim Group.
- 12 See for example *Asia Pulse* (2002).
- 13 Reported in *Business Week* (2003). Based on table 4.3 and table 5.1, I arrive at a total of US\$2.4 billion, which would be a recovery rate of 48%, but the difference can easily be caused by applying different currency rates. The average recovery rate for all Indonesian debtors stood at 28.5%. This is comparable with Malaysian results (29%) but lower than Thailand (35.34%) and Korea (39%) as reported by *Tempo* (2004).

- 14 See, for example, *Jakarta Post* (2004a).
- 15 See, for example, *Jakarta Post* (2004b).
- 16 According to Futuris's annual report in 2002.
- 17 According to a report by Jones Lang LaSalle (2002, p. 12).
- 18 It is rather strange that Andree Halim, being the son of Soedono Salim, has a different family name – but it could be the result of a simple mistake in the name registration. Although usually the name Andree Halim is used in official documentation, IBRA here uses the Salim family name. Anthony Salim is sometimes spelled Anthony Salim.
- 19 It is possible that the Salim family had shares in First Pacific and in Indofood directly, but the First Pacific and Indofood annual reports of 2002 did not disclose this aside from mentioning that Anthony Salim had a 0.01% share in First Pacific.
- 20 According to the Peaktop corporate website, Andree Halim was appointed co-vice chairman in October 2003. The company is mainly active in garden and home decorations and production is in Fuqing, China. It started producing in 1992 in Fuqing and was listed on the Hong Kong Stock Exchange in 1998 (www.peaktop.com [accessed 29 May 2005]).
- 21 See *Financial Times* (2003b).
- 22 Anthony Salim already discussed the sale of PLDT with a potential buyer, an ethnic Chinese businessman from the Philippines. However, Manuel Pangilinan was vehemently opposed to the deal. Two directors resigned. First Pacific finally held on its shareholding in PLDT and the prospective buyer pulled out. Instead First Pacific sold its majority share in Bonifacio Land in the Philippines to another Filipino group for US\$ 102.2 million (*Financial Times*, 2002a, 2002b, 2002c).

Notes Chapter 6

- 1 The straight line in this Figure is the line that best represents the trend in the data based on the R-squared value. The same linear trendline technique was used in Figures 6.2, 6.3; 6.4 and 6.6. In Figure 6.4 and Figure 6.6 the trendline appears in the legend as 'linear' followed by the name of data series between brackets.
- 2 The idea that politically well connected business groups engaging in rent seeking should be dissolved has also been voiced by some researchers (Morck & Yeung, 2004, p. 405). The reason is that rent-seeking is believed to have a negative impact on economic growth (Murphy et al., 1993).
- 3 See Post (2006).

Notes Chapter 7

- 1 See, for example, Redding (1995) or Limlingan (1986).
- 2 See, for example, Lever-Tracy (2001) and Backman (1999).
- 3 For example, Ong and Nonini (1997).
- 4 See for the concept of path dependency Garud and Karnoe (2001) and for path dependency in ethnic Chinese firms Carney and Gedajlovic (2002, 2003) and Ahlstrom et al. (2004).
- 5 See, for example, Backman (1999).
- 6 See for example Robison (1986) or Yoshihara (1989).
- 7 Developed by Putnam (2000) and Adler and Kwon (2002).
- 8 See Panzar and Willig (1981).

- 9 See Khanna and Palepu (1997, 1999).
- 10 See, for example, Peng (2003).
- 11 See, for example, Chrisman et al. (2005).
- 12 For example, Peng (2003).
- 13 See, for example, Oliver (1991).
- 14 The Salim Group study supports propositions developed by Rodrigues and Child (2003) who argued that an emerging market player can increase its level of choice by immersing itself in political networks.
- 15 See, for example, Kang (2002); Lee (2000) and Park (2002).
- 16 For example, in the *South China Morning Post* (1998).
- 17 See Schwarz (2004, p. 112).

Notes Annex 2

- 1 See Boyatzis (1998, p. 63).
- 2 Strauss and Corbin (1998).
- 3 According to Boyatzis (1998).

Glossary

Ali-Baba	Alliance between Chinese (Baba) and Indonesian (Ali)
Bang	Dialect group
Benteng	Fortress
Cendana	Jakarta street in which the Indonesian Presidential Palace is located
Chaebol	South Korean business group
Cukong	Indonesian businessman linking up with an official
Danbangke	Trader with a bicycle
Guanxi	Connections
Hengua	Fujian language group (sometimes spelled Xinghua)
Hokchia	Fujian language group
Hoki	Luck
Kretek	Clove cigarette
Masalah Cina	Chinese problem
Om	Uncle
Peranakan	Assimilated Indonesian-Chinese person
Qiaoxiang	Ties with one's birthplace
Sinkeh	New Chinese migrant in Indonesia
Totok	Newly arrived Chinese in Indonesia
Xinghua	Fujian language group (sometimes spelled Hengua)

Abbreviations

ADB	Asian Development Bank
BCA	Bank Central Asia
BPPN	Badan Penyehatan Perbankan Nasional (See IBRA)
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
CPO	Crude Palm Oil
GDP	Gross Domestic Product
IBRA	Indonesian Bank Restructuring Agency
IMF	International Monetary Fund
IPO	Initial Public Offering
KKN	Korupsi, Kolusi, Nepotisme
MSAA	Master of Settlement and Acquisition Agreement
NPL	Non-Performing Loans
PLDT	Philippine Long Distance Telephone
UIC	Unggul Indah Cahaya
US\$	US Dollar
WTO	World Trade Organisation

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