How Chinese are entrepreneurial strategies of ethnic Chinese business groups in Southeast Asia? : a multifaceted analysis of the Salim Group of Indonesia

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Painting by Eddy Kaijser entitled "*Euphrates and Tigris*"

Printed by Leiden University Press

How Chinese are Entrepreneurial Strategies of ethnic Chinese Business Groups in Southeast Asia? A Multifaceted Analysis of the Salim Group of Indonesia

Proefschrift

ter verkrijging van
de graad van Doctor aan de Universiteit Leiden,
op gezag van de Rector Magnificus
prof.mr. P.F. van der Heijden,
volgens besluit van het College voor Promoties

te verdedigen op woensdag 13 juni 2007
klokke 16:15 uur

door

Maria Helena Dieleman
geboren te Vlissingen
in 1974

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Foreword

It is probably appropriate to explain here how I arrived at a topic as "exotic" as ethnic Chinese conglomerates. In Chinese culture luck (*hoki)* plays an important role. I was steeped in luck in the form of several miracles, which have put me firmly on the track of the Salim Group.

Let me start at the beginning. Part of this thesis is about opposing poles of a dilemma. Say, the dilemma between being a university administrator and an academic. If you move towards one pole, the opposite pole becomes more and more attractive. The result of these opposing forces may be that your strategy sways between the two. I started my academic career being an administrator while being appointed in an academic role. The more the administrative career progressed, the more I felt the need to develop my academic career, which meant first and foremost to obtain my PhD. The time horizons of these two poles do not exactly match. While both require hard work, a PhD requires contemplation, attention to detailed work, and conceptual thinking. Being the director of an MBA programme on the other hand requires one to find solutions for students' problems - preferably immediately. So I started my PhD swaying between urgent administrative problems and, when my schedule permitted, my research. This irregular oscillation worked for a while, but my research progress suffered. My first miracle was that I was fortunate enough to have an understanding employer, Jacob de Smit, who stimulated me to develop both sides, and when I threatened to be overwhelmed by non-academic work, he ensured that the conditions for a successful academic career were firmly in place. Thanks to Jacob, I was able to focus almost completely on being an academic during the last year.

I was already interested in Southeast Asia and a former professor, Victor Limlingan, "infected" me with enthusiasm for the topic of Chinese business in Southeast Asia. Because he taught me such a fantastic course in Manila, I decided to take that up as a topic for my PhD. As part of some early preparations, I had gathered some material on the Salim Group, an Indonesian-Chinese large business group run by the Salim family. A small grant was advertised and I proposed to make a teaching case on the Salim Group thinking that – if I would not get access – I could always write it based on secondary data. Because one of my friends decided to get married in Bali, I spent some extra days in Jakarta trying to meet people from Chinese-Indonesian conglomerates. I wanted to see how far I would get. Surprisingly I was able to meet fantastic people, among them Mr. Utomo Josodirdjo (miracle two), who was able to introduce me to the Salim Group. Upon returning, I heard the news that LUF/Gratama Foundation had

awarded me the grant (miracle three), which would finance two more trips to Indonesia to gather data. It turned out that Anthony Salim, leader of the Salim Group was a very amicable and intelligent person who spent two whole hours of his precious time talking to me, for which I want to cordially thank him.

People ask me why I want to go through all the trouble of doing my research in a corrupt country like Indonesia. And above all why I chose such a controversial and complex company as my topic. I have never seen this as a problem, on the contrary. I really liked doing research in Indonesia, and the sensitive political, social, business and cultural issues surrounding the Salim Group were fun to dive into. I fully enjoyed having to use all of my creativity to survive in a strange new country. Dealing with a new environment forces you to develop yourself in new ways. I was astonished to see how many high-level people were willing to be interviewed for this study. As I promised my respondents anonymity, I unfortunately cannot name all those people who opened their minds and occasionally their hearts. But without willing respondents this PhD could not have been written. Thank you for your information and support.

Thinking back, the common theme in my academic journey has been crossing borders. Geographical borders were by far the easiest to cross. Cultural and disciplinary borders were more difficult but Indonesia taught me that with determination, preparation and the right contacts everything is possible. Wladimir Sachs has dedicated much of his time to training me as a rigorous social scientist, one that is able to cross borders. To work with an open-minded yet tough academic at times created great anxiety, but was mostly fun and always productive.

PhD studies are long-term projects, and in the process many people help out in one way or another. My colleagues at LUSM were very supportive: Judith de Wilde, Marielle van Es, Kirsten Visman, Marta Rodriguez, and Hans Borgman all helped me in their own ways. Leonard Blussé has been a great support when I encountered difficult times. Outside Leiden University my cooperation with Peter Post and Sikko Visscher was stimulating, and enabled me to broaden my horizon. When doing research in Indonesia, I often stayed with my friends Unggul and Tuti, who offered me a home and a supportive environment in Jakarta. Thee Kian Wie, for whom I have great respect, has often offered valuable advice and introductions. Joy Kearney has done a great job of editing this book, for which I want to thank her. Janneke and Judith have helped me out with the preparation of this manuscript for publication. My partner Thorvald has undoubtedly suffered most from the process, so I would like to thank him for bearing with me. Last but not least, I would like to thank my family for supporting me in this adventure.

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

I would like to offer a last word of clarification to the readers of this book. Some of you, especially those familiar with ethnic Chinese business in Indonesia, may think it might be about corruption. It is not – and I gladly leave this topic to forensic accountants and to political economists. Instead this book is about the strategy of a family business in a complex and changing environment.

Marleen Dieleman, December 2006.

Executive Summary

This in-depth, longitudinal case study aims at unravelling the strategy of the Salim Group, an ethnic Chinese family business group from Indonesia. The Salim Group was founded by Liem Sioe Liong, and grew to be the largest diversified business group in Southeast Asia, with close relationships with former President Suharto. Through triangulation of interviews, corporate reports, media sources and secondary sources, a time-series analysis of the Salim Group strategy within the context was made.

The extant literature on ethnic Chinese family business groups can be categorised in three streams. First, the cultural perspective considers the "Chineseness" of businessmen a factor underlying their corporate strategy. Second, the minority perspective focuses on the networking behaviour of diaspora Chinese, including on the one hand ethnic and on the other crony networks. And finally the institutional perspective to strategy in emerging markets focuses on how strategy evolves in weak institutional settings. It is argued that these three perspectives can be combined when one distinguishes between small, medium-sized and large firms. Depending on the phase of development, the strategy of an ethnic Chinese family business group could be explained by different streams. In order to explore strategy development over time in conjunction with the firm's environment, we make use of the coevolution concept, which enables one to study interdependent processes of mutual adaptation between firm and environment.

The study of the Salim Group strategy contributes to our understanding through rich, multi-faceted information as well as to theory development in the following ways. First, we argue that contrary to popular theory the Salim Group focused on a consistent local-for-local business model rather than adapting continuously to its changing environment. Second, the Salim Group's business networks have undergone substantial changes. While ethnic and political connections were important in the early days, currently foreign partners are more prevalent. The Salim Group has consciously built different types of social capital: bonding capital with their own ethnic group and bridging capital across social strata. Third, the Salim Group has diversified extensively, not only for traditional reasons but also as a result of their networks. Therefore, next to traditional economies of scope and institutional reasons behind diversification, we can in this case speak of "economies of connectedness", referring to the advantages of diversification resulting from sharable relationships. Fourth, while institutional theories focus on the influence of the context on the firm, the Salim Group shows that internal factors matter as well. The transition to the second generation

leadership marked a shift to a new corporate strategy. Fifth, both qualitative and quantitative techniques show how the strategy of the Group moved over time from a relationship-based strategy to a market-based strategy, supporting institutional theories. However, the strategy development is not linear but oscillates frequently between the two opposing poles. Sixth, this study shows how a firm may take on passive, reactive and also proactive roles with regard to their environment. The Salim Group was not only influenced by political regimes, during the Suharto regime it was able to proactively influence policies, a unique situation for a single company. Thus, this study has revealed coevolutionary patterns of interaction between company and institutions. Last, through the unique position of power the Salim Group had in Indonesia, and its close alignment with Suharto, it became a symbol of the Suharto regime. Although theory often assumes an implicit distinction between company and environment, this study has shown how a single large player may morph into an institution itself.

The study has shown the weaknesses of the cultural and networking perspectives. While both were valuable in explaining the early development of the Salim Group, neither of them is able to explain recent developments. The institutional perspective can best explain how strategy evolves for large business groups in an emerging market with weak institutions. External factors, in particular regime changes, influence strategy. However, this perspective needs to be complemented with an important notion from the family business literature: the fact that generational changes lead to a new direction for the firm. All in all, there is very little “Chinese” about the strategy development of this Group. It appears that, if compared with family business groups in other emerging markets, the Salim Group is not unique.

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Chapter 1: Introduction

1.1 Ethnic Chinese Family Business Groups

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 disproportional 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 organized in a cluster of separate companies, hence the term business group.

Given the importance of ethnic Chinese minorities in business in Southeast Asia, understanding ethnic Chinese family groups has been a key question in several academic fields, such as economics, political economy, anthropology, management and sociology. In the last fifteen years the literature on ethnic Chinese business in Asia has seen a rapid development[1]. Researchers have asked themselves whether and how ethnic Chinese family business groups are different from other firms in the region[2]. What business strategies do they employ, and are those strategies more successful than those employed by indigenous or Western firms? The knowledge that has been developed on ethnic Chinese business strategy to date remains highly fragmented. Many, often contradictory, explanations have been proposed for the behaviour of ethnic Chinese family business groups.

The extant literature relates the success of ethnic Chinese businessmen in Southeast Asia to (combinations of) the following factors: their particular culture; their status as migrants; their domestic and international networks; particular political and economic circumstances in Southeast Asian countries; and business strategies informed by specific institutional context. Three different academic approaches are particularly relevant: 1. Chinese

[1] Earlier works often used the term Overseas Chinese. However the term "ethnic Chinese" is now considered more appropriate as "Overseas Chinese" is a term taking mainland China as a central geographical point of reference. After all, it is from a mainland China perspective that people were "over seas". It also suggests that the 'overseas' Chinese will at some point in time return, and this is not necessarily the case with Chinese migrants 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 rather than Overseas Chinese.

[2] For example Hamilton (1991), Redding (1990), Weidenbaum (1996).

family business; 2. diaspora approaches; 3. the study of business groups in emerging markets. These perspectives are very briefly reviewed here, whilst a more elaborate analysis is provided in Chapter Two.

First, there are theories regarding what is seen as a more or less stable form of management in ethnic Chinese firms. This is often termed the "Chinese Family Business", or, taking a broader perspective, "Chinese Capitalism". The terms already indicate that the "Chineseness" of this particular type of business was the focal point. Researchers have argued that the specific qualities of businessmen stemming from their Chinese culture matter with regard to the type of businesses they create. The theoretical approaches in this category range from a broad analysis of social systems down to specific business strategies. Many of the most relevant contributions tend to emphasize Confucian values, particularly those related to forming social relationships[3]. Relatively stable cultural traits are, in this perspective, an explanation for the specific types of businesses ethnic Chinese created in Southeast Asia.

Second, 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[4]. Some researchers emphasize closely-knit personal relations and networks among diaspora Chinese in Asia[5] and argue that these links may be the key ingredient of a successful business strategy. Closely-knit groups may offer business advantages because deviant business behaviour carries penalties, thus ensuring a higher level of trust and lower transaction costs among group members doing business with each other. Researchers believe that ethnic Chinese minorities show similarities to other economically successful minorities such as Jews in Europe or Lebanese in Africa[6]. An essential aspect of this ethnic networking is the global character of the networks, as diaspora groups keep in contact with fellow ethnic businessmen in other countries. Global ethnic networks are argued to facilitate international trade and cross-border investments[7]. In the case of the Chinese diaspora, the home country is argued to play a role as many ethnic Chinese firms have invested in China. Another approach focuses on a different type of social capital: crony connections with power-holders. Several large ethnic Chinese businessmen have linked up with dictators and

[3] For example Redding (1990), Haley (1997; 1998), Haley et al., (1998) and Sunaryo and Cone (2005)
[4] The concept was invented by Bourdieu (1984) and has also been used within the discipline of management (Adler and Kwon, 2002).
[5] Such as Redding (1990) and Backman (2001).
[6] For example Chirot and Reid (1997).
[7] See for example Rauch (2001).

government officials, in particular in Indonesia. Political economists often relate the economic success of ethnic Chinese businessmen to the capacity to create and maintain corrupt relationships with local political powers. By establishing and using these connections some ethnic Chinese businessmen got access to scarce resources including raw materials, technology and capital on favourable terms, which gave them a substantial advantage in business. The corrupt official also earned his share without the Chinese partner becoming a political threat. This approach is also known as rent-seeking or crony capitalism[8].

The "Chinese family business" and the "diaspora" 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[9]. The types of strategies and organisations ethnic Chinese businessmen create – family business groups - exist in Chile, Mexico, Turkey and many more countries. Diversification into a group and the formation of close-knit networks of trusted trading partners is, in this perspective, a response to imperfect environments with high transaction costs, and creates a competitive advantage that is hard to imitate for rivals. There is, in the perspective of institutional economists or strategic management researchers, nothing "Chinese" about this, the type of strategy and structure is simply the most effective response to a weak institutional environment. Researchers taking an institutional perspective assume that if emerging economies "modernize" and increasingly resemble Western economies, the companies operating in those environments will converge towards Western firms in terms of strategy and structure. The three perspectives are summarised in Table 1.1.

It is clear that the three approaches described above have distinct assumptions. While the strategic management 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

[8] For example Robison (1986) or Yoshihara (1988).
[9] See for example Khanna and Palepu (1999).

undergoing fundamental changes that have hitherto received very little attention by scholars.

Table 1.1 Classification of Relevant Literature

Approach	Academic Disciplines	Main Issues Addressed
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?
Strategic Management in Emerging Economies	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?

The above 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 to be able to combine 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 dissimilar to 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 generations 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.

Taking a second look at the existing literature reveals two salient aspects. First, there is an abundance of research on small and medium sized ethnic Chinese family business and, second, there is a paucity of research taking a longitudinal perspective. Studies taking a strategic management perspective have mainly focused on smaller companies at a particular point in time[10]. 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[11]. 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, opaque 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.

1.2 Case Study Selection

The purpose of this study is to clarify how the strategy of an ethnic Chinese business group changes over time, what may influence this process, and what patterns arise. In view of the paucity of empirical material on the strategy evolution in large ethnic Chinese family businesses, the previous section argued that an in-depth longitudinal case study could enrich the extant research.

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[12]. Since Indonesia displayed the phenomenon of interest most clearly, it was decided to focus on this country. Sato[13] has published a list of the 30 largest conglomerates in Indonesia prior to the Asian Crisis, of which 23 groups were owned by ethnic Chinese[14]. It was assumed that the more prominent the group, the more information would be available for study.

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[10] For example Redding (1990).
[11] 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.
[12] See for example Eisenhardt (1989).
[13] See Sato (2004).
[14] In Indonesia the word *conglomerate* is often used instead of business group in everyday parlance, and some researchers prefer to use this term.

Many of these groups are not known for transparency, and it was expected that aspects of their strategy would remain in the dark. A prominent group was thought to be more "in the picture" and easier to analyse than a smaller and less publicised business group. Aside from size and prominence, openness to research was another criterion for case study selection. The number one on the list was the Salim Group, by far the largest ethnic Chinese business group in Indonesia prior to the crisis. With some preparation, but most of all networking and luck, an entry into the Salim Group leadership was achieved, and given the relative openness of this group it was decided to focus this study on the corporate strategy of the Salim Group.

Until today 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. It was the most prominent and largest ethnic Chinese business group in Southeast Asia - and had close relations with former president Suharto[15]. 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 rather "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, their long term alliance with Suharto made them a well-known and despised "crony capitalist". Some popular and academic works even go as far as considering the Salim Group as part of the Suharto family business empire[16]. 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.

1.3 Introduction to the Salim Group

The Salim Group consists of a large number of private as well as public companies – estimates are around 300-500 - placed under the common umbrella of the Salim family and a few trusted people. Their portfolio of companies ranged from industries like banking, insurance, food, cement, to automotive and chemicals. In 1996, the group had a turnover of over USD 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

[15] Argued by Sato (1993).
[16] A proponent of this view is activist/academic George Aditjondro (Business World, 1999).

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 Fujian province in South-China who immigrated to Java before the Pacific War. 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 became 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 modernize 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 during the Asian Crisis when Suharto stepped down. 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 commercial 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 USD 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 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.

1.4 Research Methodology

Aside from taking the Salim Group as the unit of analysis, the scope of the research was further delimited by taking a strategic management perspective. Furthermore, it was decided to focus on the recent decade of development of the group and its context since there is relatively little knowledge relating to this period. The history of the group and its development until the early nineties was studied and documented in an excellent way so I decided to focus the empirical study primarily on the period 1994-2003[17]. I have no intention to repeat earlier work - on the

[17] For example by Robison (1986) and by Sato (1993).

contrary, the purpose is to build on these studies and take them further into a new era. For the earlier period I relied more heavily on secondary sources.

Case research typically starts with a broad topic, which is then refined at a later stage. When defining the central question for this research, it was important to formulate a problem definition that was sufficiently broad to enable understanding of how the Salim Group functioned, yet it needed to provide a sense of direction when doing field research. The initial research question was an inquiry into the corporate strategy process over time: *how can we understand and explain the development of the Salim Group from a strategic management perspective?*

After an initial and broad literature study, as well as the first trip to Jakarta which enabled a more thorough understanding of available sources and research limitations, a data-gathering strategy was designed, emphasising the following topics:

- The development of the group within the Indonesian and regional context (the institutional context);
- The overall corporate strategy for the group;
- The organisational structure and ownership structure;
- Management and leadership.

From the outset the research strategy was to combine different sources of data. During the period 2003-2006 several visits to Jakarta and Singapore have enabled the accumulation of documents and the carrying out of interviews with relevant people. The sources of information used in this study are:

- 56 interviews with Salim Group managers and stakeholders (Annex 3);
- 69 annual reports (Annex 1) and other corporate documents;
- Media sources including articles in newspapers and magazines (Annex 2);
- Other secondary sources such as brochures, reports, books (References).

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 around this group. As most respondents did not wish to become known they will remain anonymous. Corporate documentation included 69 annual reports in the period 1994-2003 as well as brochures; articles of association; and official documents related to the Salim Group. A systematic analysis of newspaper articles was carried out in order to obtain information from yet another source. Elaborate searches of academic literature resulted in a number of articles and several books with information on the Salim Group.

During and after the data-gathering phase information was processed and combined using qualitative and quantitative techniques. The methodology used in this study, including the case study design, data gathering, and analysis is described in detail in Chapter Three.

1.5 Findings

The results of this study are first 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 four contributions to existing academic knowledge. First, it provides deep and multi-faceted information about one of the most influential business groups in Southeast Asia. The information was gathered through external sources as well as through access to the group, the latter being rare. In that sense, the research borrows from research traditions of history and anthropology. It provides original data that can support the creation of generalised theories through comparison of similar studies.

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 model for understanding ethnic Chinese business groups at different stages of their development and as such integrates the above mentioned theoretical perspectives on this topic. It differentiates between the entrepreneurial start-up, the medium-sized firm, the large firm and the very large multinational, and argues that different theoretical approaches apply to different stages.

Fourth, 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.

1.6 Organisation of this Book

This book first starts with an overview of the literature, the methodology, then presents the case study, an analysis and ends with conclusions.

Chapter Two provides an in-depth and broad literature review, focusing on management literature, but also covering insights from other academic disciplines. It argues that hitherto one perspective, the so-called culturalist perspective, has received most attention in the literature. However, this body of knowledge has recently been criticised. This chapter argues that although the cultural perspective may have offered a useful framework for understanding ethnic Chinese conglomerates in earlier periods, it cannot sufficiently explain recent developments in large ethnic Chinese firms. Instead, institutional theories of strategic management seem more useful for understanding how corporate strategy of large ethnic Chinese conglomerates changes over time.

Chapter Three is dedicated to methodology. In this chapter, the case study design, refined problem definition and analytic strategy is described. The chapter develops two methods for studying strategic change over time, making use of the coevolution framework. This framework allows one to study how corporate strategy evolves over time while influencing and being influenced by the institutional context. First, an interpretative method is presented to evaluate corporate strategy over time. Secondly, where possible, a method is developed to translate qualitative data into quantitative data, and to measure corporate strategy over time using a set of variables. The chapter finally develops a visual model to "map" corporate strategy over time within the institutional context.

Chapters Four, Five, Six and Seven are dedicated to the case narrative of the Salim Group. The case study of the Salim Group is related based on an analysis of the data gathered during the field research. The case study section starts with a chapter that presents an overview of the history of the Salim Group from its start until 1994. The next chapters look into the group's development from 1994 until the Asian Crisis, during the Asian Crisis and the period after the Asian crisis.

Chapter Eight places the previous four chapters in a long term perspective and analyses the corporate strategy over time; and the factors influencing strategy change at different stages of the Salim Group development.

Finally, Chapter Nine presents conclusions.

Chapter 2: On Families, Minorities and Strategies

2.1 Introduction

Ethnic Chinese business groups have been the topic of research in a number of different academic disciplines, each with a different focus. Even though a substantial body of literature now exists, the insights are fragmented. In this study I attempt to bring various approaches together in a new framework. This chapter first discusses a number of relevant approaches for understanding the strategy of the Salim Group, including family business perspectives, diaspora entrepreneurship research, and institutional theories.

After giving a brief overview of each stream of literature, the question 'how can this literature explain strategy and strategic change?' is discussed. The different bodies of literature are subsequently combined in a single conceptual framework which distinguishes between different firm sizes, from the entrepreneurial start-up to the multinational business group. The theories can be integrated as they all offer factors influencing strategy in ethnic Chinese family business groups, but in different phases of the development of the ethnic Chinese family business. In using such a conceptual framework I argue that ethnic Chinese business groups change substantially over time due to internal and external circumstances.

In order to describe and analyse the importance of strategic change over time, it is argued that a model which can map both internal and external factors, influencing change to evolve over time, would be helpful. The co-evolution concept, which originated in biology but has recently been introduced in strategy research, can serve as an umbrella concept to clarify strategic change processes of firms over time, including the Salim Group strategy.

2.2 Family Business Research: The Chinese Family Business

There is a continuing debate about the definition of family firm, but a general definition of a family business 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'[18]. Recent research revealed not only that family control is ubiquitous in the world, but also that the larger business families in emerging markets are often

[18] Taken from Chrisman et al. (2005, p. 2).

organised in corporate groups[19]. Family ownership of large business groups is particularly important in Asia[20]. Examples of family controlled groups are Samsung from Korea, the Tata Group from India, and also the Salim Group from Indonesia. The Salim Group is, from a legal perspective, not a single business but rather a collection of economic interests. For the purposes of this study I therefore broaden the definition of a family firm and combine it with the definition of a business group, which can be defined as 'a collection of firms bound together in some formal and/or informal ways'[21]. Family business groups can then be considered a specific type of business group and defined as: *collections of firms bound together in some formal and/or informal ways, controlled on a sustainable, potentially cross-generational basis to shape and perhaps pursue the formal or implicit vision of the business held by a family or coalition of families*.

Family firm research explicitly recognizes the special role of the controlling family, which often participates in the management of the firm[22]. In family business groups family interests, family dynamics and founding family values are incorporated into the formulation of the goals and strategy of the firm. If the owning family also holds the leadership of the firm, which is the case in the Salim Group, it creates a situation that is distinct from other firms or business groups. Relative to non-family firms, owner-managers of family firms possess high-powered incentives. If the ownership, control and leadership are combined, it allows 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[23]. Family leaders are often largely free from oversight, particularly if their firms are not listed on stock exchanges. 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. Often this family leadership role

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[19] See for example La Porta et al. (1999) or Granovetter (1995).
[20] See Claessens et al. (1999).
[21] According to Granovetter (1995, p. 95).
[22] See Sharma et al. (1997).
[23] Agency theory assumes that in widely held firms the owners (shareholders) need to monitor managers to 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.

gives continuity to the firm since the leadership changes less regularly than in non-family firms, perhaps only with the passing of the generations.

In view of the strong role of the family in strategic management, succession and change resulting from generational change is an important ingredient of family business research[24]. As is the case in all family businesses, ethnic Chinese family firms are strongly influenced by internal dynamics in 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[25]. Those who have successfully managed the generational transition have done so by adopting new strategic ideas and new challenges. As the self-made founder, himself strongly rooted in Chinese business culture, transfers the reins of power to the Western-educated younger generation, the corporate strategy tends to change as well, incorporating new insights and directions better informed by recent management theories and practices in a global business environment[26].

Given that in family businesses, the values and cultural behaviour of the owner/manager are essential for the strategy of the firm, it is not surprising that studies of culturally specific family firm practices have emerged. The idea that cultural values underpin capitalism can be traced back to Weber's[27] work on Protestant ethics and have continued to influence studies of management across cultures[28]. There are numerous studies on the particular characteristics of *ethnic Chinese* family firms. This expanding body of literature has seen a rapid development, particularly in the 1990s, when some of these family businesses started by migrant Chinese in Asia grew into substantial international conglomerates and also started to show a certain degree of openness to the media and to academic study[29]. Scholars from different fields, such as sociology, economics, anthropology and management, were interested in Chinese business models as they emerged outside mainland China. The apparently disproportionate dominance of ethnic Chinese in Southeast Asian business called for explanations for their success.

Researchers interested in ethnic Chinese family firms outside mainland China have formed theories of what is seen as a more or less consistent form

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[24] See Chrisman et al. (2005).
[25] See Gomez and Hsiao (2001).
[26] See for example Kao (1993); Suehiro (2001) and Zheng (2002)
[27] See Weber (1958).
[28] E.g. Hampden-Turner (1993).
[29] 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).

of management: the ethnic Chinese business model. This model is sometimes called the Chinese Family Business, or CFB[30] or more broadly "Chinese Capitalism"[31]. The fact that it was called a *Chinese* model already indicates that researchers tended to look for intrinsic qualities in Chinese businessmen, stemming either from their Chinese culture and/or from their specific position as a culturally distinct migrant group in Southeast Asian societies.

Many of these studies emphasised Confucian values, in particular the social norms for different types of relationships[32]. 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[33]. The Confucian values are argued to 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 leading author lists 10 characteristics of the Chinese Family Business (Table 2.1) and other authors have given similar accounts of what constitutes the Chinese Family Business[34].

Among scholars taking a cultural perspective a diversity of approaches exists. Some authors focus only on the private enterprises[35], while others take into account the socio-economic environment in which these Chinese businesses operate[36]. There are those who argue that some strategic management models are typically Chinese, and superior in their specific context, such as a low cost-high volume strategy and a focus on trade in non-branded products[37]. Others note a development of Chinese firms from small traders towards national industrialists and claim the Chinese

[30] See for example Davies and Ma (2003) or Weidenbaum (1996).
[31] See for example Redding (1990); Douw, Huang and Godley (1999); Crawford (2000); and Jomo and Folk (2003).
[32] See for example Redding (1990); Haley et al. (1998); Li, et al. (2000); Wah (2001) and Westwood (1997).
[33] See Hofstede and Bond (1988, p.8).
[34] For example Davies and Ma (2003) or Yu (2001).
[35] Such as Limlingan (1986).
[36] Such as Whitley (1999) and Hamilton (1991) who argue that one can speak of a distinct type of Chinese capitalism, embedded in a system of social, cultural and economic factors.
[37] See Haley et al. (1998).

businessmen were successful as a result of a sequence of superior business strategies in various stages of their development[38].

Table 2.1 Characteristics of Chinese Family Business

	Characteristics
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)

The "*Chinese culture*" argument has been very important in studies of ethnic Chinese business. As Ruth McVey[39] 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 Chinese family businesses. One limitation of these approaches is that many, especially the studies dating from the early 1990s, focused on relatively small traditional family businesses[40]. Only a few studies have focused on large and multinational ethnic Chinese family conglomerates in Southeast Asia embedded in the context of global business[41]. Moreover, by linking the Chinese Family Business to a more or less stable set of cultural characteristics, inherited from a distant Confucian past, many authors tended to pay less attention to the rapid changes that occurred within ethnic Chinese firms, especially within those family businesses that were successful and grew substantially.

Critics of the cultural perspective argue that in recent years Southeast Asian conglomerates have been part and parcel of the globalisation processes: they

[38] See Limlingan (1986).
[39] As argued by McVey (1992, p. 18).
[40] Such as Davies and Ma (2003); Menkhoff (1993) and Redding (1990, 1995).
[41] Exceptions are Yeung (2000); Suehiro (2001) and Ip, Lever-Tracey and Tracey (2000).

formed joint ventures and alliances with Japanese and Western businesses, which required them to comply with certain rules and enabled them to take on new strategies and management practices. Many of the conglomerates are now managed by the second generation, usually well educated and familiar with Western business practices, and as a consequence they undergo a certain degree of transformation. Those ethnic Chinese family business groups that were successful faced impressive 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[42]. With increased size, these businesses moved away from the simple structures and one-product firms that earlier authors focusing on "traditional" Chinese family business described[43]. With the rapid growth of the business, founders were forced to hire professional non-family members as managers and use the stock exchange to satisfy increasing capital requirements for expansion[44].

Although many authors subscribing to a cultural perspective tended to focus on characteristics of Chinese family business that remained the same, authors comparing family business around the world noticed different patterns. Empirical studies reveal that larger business groups are often organised in the form of a pyramid, particularly if the group is controlled by a family or coalition of families[45]. A pyramidal ownership structure occurs for example 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 full control over firm C (since it owns 51% of the voting rights) but is entitled to only 13% of the cash flow rights. Using a firm it already owns (A) to set up a new firm (B) as illustrated above is considered a vertical chain of ownership. A family can also decide to set up a new firm X independently from other firms, in which case the literature refers to a horizontal ownership structure. A possible reason for pyramid structures, as suggested in the literature, is to achieve managerial control by a key shareholder with limited capital. 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.

Also, it is often argued that pyramids would offer families incentives to divert capital away from minority shareholders for their private benefits. Returning to our example, tunneling could occur if the family would try to move assets from C towards A or debts from A towards C. In both cases the

[42] See Li et al. (1997).
[43] See for example Redding (1995).
[44] For example Weidenbaum (1996) or Tsui-Auch (2004).
[45] See Claessens et al. (1998); Chang (2003) and Morck and Yeung (2003).

minority shareholders now own shares in a less valuable firm. This practice of transferring money or assets out of a firm for private benefits is often called tunnelling. The reverse, majority owners inserting their private money into the firm is called propping. Propping often occurs in times of crisis[46]. Using the pyramid structure as a way to steal from minority shareholders could be a strategy to maintain the powerful position of the family while also reaping the advantages of more complicated and modern organisation structures. 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[47]. With expansion, which forced new management approaches and organisational structures, usually came internationalisation, which added another layer of complexity to the family business[48].

The recent Asian Crisis shook the foundations of many Asian family business groups. It exposed tunneling practices and accelerated the strategic restructuring process. It forced conglomerates to make sudden transitions in strategy. For example, Suehiro[49] identifies two types of family groups in Thailand after the Asian Crisis: the authoritarian type and the innovative type, where the former is believed to be passive and the latter active in adequately adapting its post-crisis strategy to the new rules of the game. In Indonesia, the institutional change after the crisis was not only economic, but also political as it resulted in a violent regime change, where old family businesses perished or adapted; and new ones arose. Domestic political and economic turbulence tends to further accelerate the management transition process clearly showing that not only cultural values, but also the domestic macro-context has an important influence on corporate strategy. In addition, worldwide trends such as globalisation processes[50] and the rise of the Chinese economy[51] also exercise a strong influence on strategy of ethnic Chinese family business.

Although all ethnic Chinese firms started out as small businesses, those that are now substantial have listed (part of) their companies on stock exchanges, are bound by the rules of the game dictated by the WTO, IMF and the World Bank, and thereby moving to a business model with characteristics that

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[46] See Friedman et al. (2003).
[47] See Weidenbaum (1996).
[48] 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)
[49] See Suehiro (2001).
[50] See for example Ahlstrom et al. (2004); Yeung (2000).
[51] For example Weidenbaum and Hughes (1996); Brown (1998).

comes to resemble more the "normal" Western business model. It appears that what looked in early stages like a fairly homogenous management model influenced by cultural traits is now exhibiting a much larger degree of variety. In the words of Gomez and Hsiao[52] 'a small number of scholars have also begun to challenge popular notions of a dynamic form of "Chinese Capitalism" and of mushrooming intra-ethnic corporate ties by arguing that there is a heterogeneity of styles of business organisation and management among members of the Chinese business community'. The question thus arises whether traditional approaches to the CFB, which characterises it as based on paternalism, family ownership, control, personal networks, adaptability and simple organisational structures, are still relevant as the business has passed into the hands of the next generations. Furthermore, those theories of the Chinese Family Business pointing only to relatively stable cultural factors tend to ignore the possibility of strategic change and tend to downplay the importance of contextual change.

The most important body of literature on ethnic Chinese business, the research that finds explanations for business behaviour in Chinese culture, has recently been under pressure. The cultural perspective seems too limited to explain the behaviour of larger businesses which have undergone changes from inside, through generational change, and from outside, through globalisation and institutional changes. Although small ethnic Chinese family businesses may have been informed by cultural values, larger ones exhibit larger variety and more complexity in business behaviour. Recent studies suggest the existence of more sophisticated structures, ownership patterns and professional management in an international context – all of which depart from what has been described as characteristic for ethnic Chinese family firms. If one takes Chinese culture to be a static set of values and norms, it is clear that these cannot explain recent dynamics. But even if one assumes that culture is dynamic and appropriated by individuals to their own advantage, it is not an easy undertaking to explain recent business behaviour merely by using cultural factors.

2.3 The Migrant Entrepreneur: Diaspora Advantages

A related body of literature focuses not on the cultural or family-specific aspects of business, but on how ethnic Chinese entrepreneurs took advantage of opportunities their situation offered them. The migrant status of ethnic Chinese in Southeast Asia is argued to make a difference[53]. First, some argue that migration is a selection process in which only the most risk-taking people engage – which then increases the prevalence of

[52] See Gomez and Hsiao (2001, p. 4).
[53] Bonacich, 1973.

entrepreneurship among such groups. The role of the Chinese in economic development of South-East 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[54]. Migrants often face difficult and hostile host contexts, and often deal with official or unofficial discrimination. In theories related to migration "being Chinese" is equivalent to *not* being Indonesian, Filipino, Malaysian, etc[55]. 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"[56]. 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[57].

Thee[58] described the economic policies that have been implemented in Indonesia with regard to the ethnic Chinese since Indonesia's independence and argued these were fragmented and have failed to stop the economic dominance of this minority. After independence, the Indonesian economy was still dominated by Dutch businesses, which were eventually nationalised in the late 1950s. Because the Chinese had the skills and capital to fill the gap that emerged, they soon became the most important economic group in Indonesia. The government, as a reaction to this, implemented both policies stimulating indigenous businessmen and restricting Chinese business interests, but in Indonesia these policies were fragmented and generally ineffective. During the so-called "New Order" of Suharto, a more pragmatic posture was taken, recognizing that the Chinese minority was essential for economic growth. Panglaykim[59] wrote:

[54] Comparisons have been made by Chirot and Reid (1997), Davis et al. (2001) and Kotkin (1992). One must note the difference between migrants and minorities. Minorities are not necessarily migrants nor are migrants necessarily minorities, but in the case of the first generation ethnic Chinese in Southeast Asia both terms are applicable.
[55] For a more thorough discussion on "being Chinese" see: Suryadinata (1997); Godley and Lloyd (2001) or Ong and Nonini (1997).
[56] 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 of the largest businesses in Indonesia however, the majority is controlled by Chinese businessmen. This is unusual given the fact that ethnic Chinese are a minority.
[57] e.g. Mackie (1976); McVey (1992); Robison (1986); Suryadinata (1997); Thee (2006).
[58] Thee, 2006.
[59] See Panglaykim (1968, p. 83).

> 'It is quite obvious that Indonesia cannot at present dispense with their [Chinese business community] capital, skill, experience and connections in almost every branch of domestic and foreign trade. The new Government fully recognizes this.'

Many ethnic Chinese businesses, and especially those close to Suharto, thrived during the New Order, which brought impressive economic growth. During as well as at the end of the Suharto era, however, anti-Chinese sentiments erupted and Suharto eventually attempted to transfer wealth from ethnic Chinese to indigenous businesses. In the post-Suharto era, despite 32 years of impressive economic development, the economy still depends on ethnic Chinese capital and business skills. Panglaykim's words could easily have been written today.

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 essentially as a struggle for power over politico-economic resources, ethnic Chinese capitalists are a minority group that has been successful in this struggle for economic control, particularly in various Southeast Asian countries such as Indonesia[60]. Several authors ascribe the disproportionate economic success of Chinese businessmen (compared to indigenous businessmen) in terms of the ability of some Chinese businessmen to form alliances with local political power and gain preferential access to scarce resources such as raw materials, technology and capital – an approach that is often termed rent-seeking or crony capitalism[61]. In Indonesia the term *cukong* is used for a Chinese businessman linking up with an official. The allocation of certain advantages due to connections is usually seen as either corruption or crony capitalism. Corruption involves bureaucratic behaviour that deviates from the norm and that results in private gains by bureaucrats[62], but is not necessarily based on continued relationships. Cronyism is sometimes seen as a special type of corruption, and is often related to social exchange theory, which deals with interactions between people or groups of people. Cronyism can be defined as 'a reciprocal exchange transaction where party A shows favour to party B based on shared membership in a social network at the expense of party C's equal or superior claim to the valued resource'[63]. Exchange theory, which was amongst other aspects developed by Emerson[64], specifically emphasizes the reciprocal aspect of actor relations. In crony type relations, at the outset it may not be clear how and when the favour will be reciprocated.

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[60] See Robison (1986).
[61] For example Yoshihara (1988).
[62] See Luo (2002).
[63] According to Khatri et al. (2006).
[64] See Emerson (1972a,b).

Local political figures, particularly 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[65]. The fact that a leader like Suharto linked up with various ethnic Chinese businessmen is understood in this manner[66]. Elson, in his biography of Suharto, noted his unusual "fundraising abilities"[67], and in his autobiography Suharto himself describes how he made use of the Chinese businessmen to achieve his objectives for the Indonesian nation[68]. This model worked for the elites, the Chinese businessmen and for the economy in general and there was (and is) little incentive to change the system from inside[69]. This situation meant that companies were generally faced with an environment where relationships with those in power were a key 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 only an Asian phenomenon. Writing about Eastern Europe, Karady[70] notes: 'Jewish entrepreneurs could never achieve political power or public prestige that paralleled their economic success. (..) Such status incongruity was eased, in some cases, when Jewish entrepreneurs entered into class alliances with Gentile elites, as they did in pre-Trianon – that is, pre-1918 liberal - Hungary, nineteenth-century German Prague, and interwar Czechoslovakia.'

Political economists also go a step further and claim that the ethnic Chinese businesses in Indonesia, through their crony relations, have managed to actively mobilize 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[71]. This situation is not unique to Indonesia. In Korea some business groups, known as *chaebols*, have grown to be dominant factors in the economy, to such an extent that they easily influence economic policies. Chibber argues that rather than the state controlling business, a more subtle mutual process between state and business interests led to Korea's successful economic development[72]. Others argue more strongly that Korea was troubled by an entrenched system of government-business

[65] See Lim (2000).
[66] For example Kang (2002).
[67] See Elson (2001).
[68] See Dwipayana and Ramadhan (1989).
[69] For example Robison and Hadiz (2004).
[70] See Karady (1997, p. 126).
[71] For example Rosser (2003); Robison and Hadiz (2004).
[72] See Chibber (1999).

relationships[73] or use the concept "mutual hostages" to describe coordination between business and state[74]. In Indonesia the mutual dependence of business and state was perhaps even more pronounced. Schwartz 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'[75].

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[76]. One author wrote about Chinese migrants: 'They didn't so much as pour into any one location, but fanned out across Asia. One clansman from a particular village in China would migrate to, say, Bangkok, and another would settle in Singapore. The way the Chinese settled across Asia ensured that they had a ready-made international network of connections within which they could trade and raise capital'[77]. 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. A study on Hong Kong concluded recently that 'the great mobility of the Chinese diaspora from Hong Kong, and the diasporic landscape they have created, have been effectively shaped by their place-based ethno-linguistic identity'[78]. 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[79]. Some authors argue that the intra-ethnic Chinese networks are instrumental in overcoming trade barriers, and as such offer a competitive advantage[80]. The intra-ethnic networks, according to these authors, cross borders and facilitate internationalisation. 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[81].

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[73] See Amsden (1989); Lee (2000) or Park (2002).
[74] According to Kang (2002).
[75] See Schwarz (1997, p. 129).
[76] See for example Granovetter (1992); Kotkin (1992); Lever-Tracey (2002) and Backman (2001).
[77] According to Backman (2001, p. 195).
[78] According to Lin (2002, p. 87).
[79] See Liu (1998).
[80] For example Rauch and Trindade (2002).
[81] Weidenbaum and Hughes, 1996.

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 southeast 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[82]. 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[83]. Several anthropological works have provided interesting information on Chinese "transnationalism" and the recent cultural and spatial changes in ethnic Chinese networks[84]. Some researchers focus on ethnographies of the changes in business strategies and organisation patterns, arguing that a new and alternative Chinese modernity is coming about which is more flexible and transnational[85].

The basis of such intra-ethnic ties is often linked to Chinese culture. In Chinese society personal networks extending from the individual exist, and each type of relationship is regulated according to social conventions[86]. In this way the relationship between a father and son requires a different behaviour than the relationship with a cousin. Chinese networks are commonly termed *guanxi*. *Guanxi* refers to personal, particularistic relationships between two individuals. The relationship implies a long-term process of exchanging favours. The term itself is hard to translate and should be seen as a distinct Chinese cultural phenomenon. The word is composed of two characters: *guan* and *xi*. *Guan* means "to link" or "to relate to" and *xi* means "in relation to", or "to tie up". Together, *guanxi* means connections, or two individuals being connected[87]. The basis for *guanxi* can be a shared experience, for example the same place of birth or 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[88]. A shared culture of *guanxi* is often argued to be a prerequisite for success in Confucian societies[89]. The importance of *guanxi* can also explain the frequent business interactions between ethnic

[82] For example Douw et al. (1999).
[83] For example Ong and Nonini (1997) or Yeung (1997).
[84] For example Dahles (2005).
[85] For example Ong and Nonini (1997).
[86] Fei, 1992.
[87] See Chen and Chen (2004) and Xin and Pearce (1996).
[88] For example Sunarjo and Cone (2005).
[89] See for example Yeung and Tung (1996).

Chinese firms in Asia. *Guanxi* has also been linked to social exchange theory, but is understood as a culturally specific form of social exchange.

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. The term "social capital" was coined by Bourdieu to describe the value of social networks[90]. There is now substantial agreement that social capital facilitates individual, organisational, and collective action and thereby creates value[91]. 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[92]. Although most research on the role of particularistic relationships treats these as a homogeneous category, recent research has emphasized that different types of social capital offer different (dis)avantages[93]. 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[94]. 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. Relations of entrepreneurs are known to influence business decisions, and the composition and influence of the business network may evolve over time[95]. 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[96].

This body of literature shows us that a precarious position in a society, that of an ethnic minority, may offer opportunities in a hostile environment, in particular if the migrant group is able to form a stable network of relationships for support and protection, both within and outside their peer group. As the business group evolves, it may use its political connections for protection and influence the domestic context, while it can use its ethnic network to invest either abroad or in China. This perspective combines the

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[90] See Bourdieu (1984).
[91] For example Nahapiet and Ghoshal (1998); Oh et al. (2004) and Uzzi (1997).
[92] 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.
[93] Luo and Chung, 2005.
[94] See for example Putnam (2000); Adler and Kwon (2002).
[95] See for example Hite (2005); Keister (2001).
[96] See for example Chung (2005) and Peng (2003).

influence of external factors on the ethnic Chinese migrant with cultural networking strategies rooted in the Chinese concept of *guanxi.* Recent studies suggest that networking ties may decrease in importance over time.

2.4 Institutions and Strategy in Emerging Economies

The "Chinese Family Business" and the "Diaspora" approaches are sometimes integrated into one comprehensive argument and sometimes referred to as the "relationship based model"[97]. But a third kind of approach takes a radically different perspective. It argues that large diversified conglomerates, often held by families or coalitions of families, are prevalent forms of economic organisation in many countries, particularly in emerging economies with weak economic institutions[98], and that they have certain advantages over other types of organisations[99]. There is, in this view, no particular reason to assume that "Chinese" or "minority" has anything to do with this business model.

Three perspectives are important for research on emerging market business groups[100]. The first is institutional theory, which argues that institutions are an important factor in shaping organisations[101]. It is now well established that the business context has a strong influence on corporations, especially in developing countries, and influences strategic choice[102]. 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[103]. 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[104]. Others attribute a role to the state or state policies in stimulating the

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[97] For example Peng (2003).
[98] See Khanna and Palepu (1999).
[99] For example Guillén (2000).
[100] See Hoskisson et al. (2000)
[101] Prominent scholars are Scott (1995) and North (1990).
[102] 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).
[103] See for example Granovetter (1995); Khanna and Palepu (1997 and 1999); Kock and Guillén (2001) and Peng (2003).
[104] See for example Khanna and Palepu (2000).

development of business groups, such as in Japan[105] or Korea[106] while others point to a more abstract 'institutional environment' as a conditioning factor for business[107]. 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[108].

The second perspective is the transaction economics approach, initially formulated by Williamson[109]. This theory uses a contractual lens as a starting point. The transaction cost approach focuses on the firm, while assuming that the environment affects the firm's success and structure. It argues that given a set of circumstances influencing the firms' transaction costs, certain corporate behaviours are more or less effective. The choice to implement a transaction with a market party or in an internal hierarchy is assumed to be rational. Hence, if the environment displays large levels of uncertainty and transactions costs are high, such as is the case in many emerging markets, the transaction cost approach assumes that firms internalise transactions and implement diversified structures. The best way to gain control over key resources in the absence of a dependable legal system is to rely on family and trusted parties – or, in other terms, to form social networks which are reflected in the corporate strategy[110]. 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[111]. In Western economies it used to be a trend in the 1970s and 1980s, but more recently companies tend to focus on core businesses. In emerging economies there is a significant continued presence and success of diversified firms, and that has spurred researchers to formulate theories of diversification. The transaction cost approach offers one theory, which points to situations where the market or the organisation is more efficient, depending on the cost of the transaction. High transaction costs are an explanation for diversified business groups. Next to the transaction cost approach, another complementary theory is useful to explain why business groups arise: economies of scope. In the late 1970s the concept of economies of scope was introduced to describe a condition where it is less costly to combine two or more product lines in one firm than to produce them separately. Economies of scope are generally

[105] For example Lincoln et al. (1998).
[106] For example Park (2002).
[107] For example Kim et al. (2004).
[108] According to Scott (1995).
[109] Williamson (1985).
[110] See for example Butler et al. (2003); Carney (2005); Casella (1999); Hitt, et al. (2002); Jones et al. (1997); Landa (1991); Peng et al. (2001); Rauch (2001); Xin and Pearce (1996) and Wu and Choi (2004).
[111] E.g. Claessens et al. (1999); Hoskisson and Hitt (1990) and Martin and Sayrak (2003).

linked to sharable production inputs[112]. 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, diversification could be beneficial.

The institutional perspective and the transaction cost perspective leave little room for managers to make strategic choices. They assume that an optimal strategic behaviour exists given a set of circumstances. As a consequence these theories can hardly explain why two very different firms can excel in the same environment, or why similar firms excel in different environments. A third perspective complements the above mentioned institutional and transaction cost approaches. The resource-based perspective, finally, argues that firms create competitive advantages through a unique combination of resources built up, such as connections, access to capital etc[113]. While institutional theory argues that the company is to a large extent influenced by external factors, the resource based approach opens up room for companies to design different strategies and take on an active role. This type of approach can explain why organisations in the same context differ, or why similar organisations differ over time, and gives a more active role to strategy formulation[114]. Guillén has combined the 'economies of scope' and 'institutional' views and argued for a resource-based theory of business groups by assuming that 'entrepreneurs and firms in emerging economies create business groups if political-economic conditions allow them to acquire and maintain the capability of combining foreign and domestic resources [..] to repeatedly enter new industries' [115].

These perspectives drawn from strategic management theories all offer explanations for the existence of diversified business groups, although they attribute different weight to the influence of corporate strategy versus conditioning by environmental factors. In order for business groups to build a substantial competitive advantage, they need to adopt strategies that provide a "strategic fit" with an environment characterised by weak institutions and high transaction costs.

If conglomeration and use of networks of trusted partners are responses to imperfect institutional environments, then as institutions modernize one

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[112] 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).

[113] See Barney (1991).For an overview of the resource-based view of the firm see Acedo, Barroso and Galan (2006).

[114] See Hoopes et al. (2003).

[115] From Guillén (2000), p. 364.

would expect a move towards market-based strategies[116], and eventually perhaps a convergence with Western management models. Extending this line of work, Peng and Zhou[117] argue further that this move towards market-based strategies is not a sudden transition. In the face of institutional changes, 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. This deterministic model of Asian business groups is supported by some researchers on Korean business groups[118].

Summarizing, this body of literature points to the importance of external factors in business strategy that are independent of cultural or minority perspectives. These external factors are combined under the umbrella concept "institutions" which takes on the meaning of the business context of a firm. It discusses the possibility that the strategy of large ethnic Chinese family business groups could be a competitive advantage in a weak institutional context and suggests that with changes in the institutional context, the corporate strategy will also change.

2.5 A First Step Towards Integration

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?

Although the three approaches described above (cultural, diaspora and institutional/strategy) are rather different in their assumptions, scope and conclusions, each offers useful insights for understanding strategic models of Asian conglomerates, especially when one considers different stages of their development:

- The origins, or the *genesis* -- the immigration of the founder and the establishment of the first small business -- is certainly strongly influenced by the Chinese tradition of mutual help and clan solidarity,

[116] See for example Peng (2003); or Peng, Lee and Wang (2005)
[117] See Peng and Zhou (2005).
[118] Such as Kim et al. (2004).

which in turn is informed by an elaborate value system. While the recently arrived immigrant is poor and vulnerable, a support group is essential, and the first opportunities are often found in partnership with other ethnic Chinese migrants.

- Once the businessman has built up a modest company and developed entrepreneurial skills, he has evolved into an interesting partner for local officials in a corrupt environment, such as local governments or military entities, who can, in turn, offer protection, a market, or resources. The establishment of the first business partnership with a local politician or strongman can be viewed in terms of the peculiar social vulnerability of an immigrant within a corrupt host-country, who nevertheless displays entrepreneurial skills and can be considered a valuable and simultaneously vulnerable partner.
- Dependence on a local strongman is risky and can fuel the desire for diversification, and once conglomerates grow they may use their ethnic networks for internationalisation in Asia. While the ethnic Chinese businessman becomes wealthier, there may be a desire to play a more prominent role in ethnic Chinese networks, and to make investments in mainland China either alone or with fellow tycoons from the same dialect group.
- To explain why only a few of the thousands of Chinese immigrants have succeeded in transforming their budding enterprises into flourishing mega-conglomerates one must consider the broader dynamics of development and ascribe individual achievement in part to luck, but largely to superior business acumen and competence in building and managing modern industrial and trading concerns in a context of imperfect market conditions.
- If the conglomerate is an extremely large player, it may in turn be able to influence local politics, and create a situation of mutual dependence between a political and business leader.
- The entry of the second generation into the business marks a period of strategic change. Traditional Chinese values and simple structures are not sufficient any more to run the business, but a more sophisticated structure with professional management and a variety of business models in different industries and countries is necessary to control the expanding international empire. Rapid growth of already large businesses may tie up too much capital within the firm, and families may consider listing one or more of their enterprises on a stock exchange, in which case they need to comply with requirements of transparency and protection of minority shareholders.
- In the context of a liberalizing economic environment, the very large ethnic Chinese firms may be forced to move slowly from a strategy of relying on ethnic and political connections, towards a market-based strategy informed by Western management theories and practices.

Democratisation replacing of long lasting dictatorships may make political alliances less stable, which may encourage the firm to either focus on one business or spread its risks across countries and industries. Very big conglomerates may outgrow ethnic and local political networks and do business on a global level playing field.

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 2.2).

Table 2.2 Conceptual Model of Ethnic Chinese Family Firm Development

Corporate Size	**Strategy**	**Relevant Frameworks**
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
Very Large	Multi-national strategy, domestic market power	Institutional & Strategic Management Approaches, Business Groups in Emerging Markets

The idea that as companies grow into multinationals they are influenced by different factors is a well-known fact in management, but has been surprisingly absent from the literature on ethnic Chinese business so far. An analogy with a present day large family business could illustrate this point. The current strategy of a company like Philips is these days interpreted in terms of their innovations, global positioning, global efficiency, and profitability. It would be rather strange to interpret the current strategy of Philips in terms of the values of the founding family – even if the Philips brothers had a profound influence on early Philips and instilled in it a sense of direction and basic values that continue to be of some importance up to today. The pre-war Philips is simply not the same as the present-day multinational. The founding family saw the opportunity to grow by making light bulbs, but when we think of Philips today we see the company in a completely different light, namely as a highly professional, high-tech global enterprise. Although it may continue to have several "typically" Dutch values, these values are rarely mentioned as a key element in – say - the reports of stock market analysts when they recommend their clients to buy or sell shares. The point here is not that history or culture do not matter at all, but rather that other factors will become more important over time when it comes to corporate strategy.

It is not very surprising that, as a company grows, founding entrepreneur values are relatively less important and the corporate strategy could be also 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, 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.

2.6 Strategic Choice

When discussing the difference between the institutional approach to corporate strategy and resource-based perspective we 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 as the resource-based view argues?

The literature takes diverging directions attributing various degrees of freedom for management to influence their own strategy and their environment over time[119]. Since this debate is relevant for all businesses, 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" with the business context of their time[120]. Even in a hostile context they found ways to succeed in business. This adaptability is argued to be 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 information flows, alliances

[119] Prominent authors in this field are Beckert (1999); Child (1997); Child and Tsai (2005) and Oliver (1991).
[120] See for example Limlingan (1986) or Williams (1952).

and facilitate cross-border trade[121]. 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[122]. Others refer to the fact that history matters for present-day strategy choices as "path-dependence"[123]. 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[124]. 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[125].

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 first started in trading, then basic industries (food, cement), coinciding with policies of import substitution industrialisation, then a move to 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[126]. The sequence of strategies clearly shows that the context strongly influenced corporate strategy. For the Salim Group the push of the context was even more direct: in many cases it started businesses after receiving instructions to do so from Suharto. In the case of the very large conglomerates, such as the Salim Group, 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[127].

Although literature points at different internal and external changes influencing corporate strategy, how these factors interact in the context of a single company and how and when they exercise passive, reactive and proactive roles, is not clear and would need further investigation. When studying complex phenomena, it is more useful to speak of producer-product relationships rather than of causal relationships. In producer-product relationships, A can be necessary to produce B, but not sufficient.

[121] For example Hamilton (1991); Kotkin (1992); Lever-Tracy (2002); Redding (1990) and Yu (2001).
[122] See Ahlstrom et al. (2004); Bruton et al. (2003); Carney (1998); Carney and Gedajlovic (2003).
[123] See Garud and Karnoe (2001).
[124] For example Carney and Gedajlovic (2003); Davies and Ma (2003).
[125] See Child and Tsai (2005).
[126] See Limlingan (1986), Sato (1993) or Suehiro (2001).
[127] See Child and Tsai (2005) and Ackoff (1974). Oliver (1991) speaks of manipulative strategies to influence the environment.

Other environmental factors are likely to play a role as well and causality can only explain part of the reality[128]. 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 (or co-production) of internal organisational dynamics, corporate strategy and the institutional context.

The case of the Salim Group, the largest Indonesian business group with a close proximity to the Suharto regime, presents a unique opportunity to study processes of mutual influence of the business group and its institutional environment over a period covering half a century. In addition, for thirty years this coincided with the period of the young Salim gradually taking over the reins of power from his father, offering thus the opportunity to observe the interplay between strategy and generational transition.

2.7 The Case for Coevolution

The coevolution theory emerged in ecology to describe situations where two or more species influence each other's evolution[129]. The fundamental insight of coevolution is that context shapes the evolution of a species by recognizing that species sharing a habitat are part of each others' 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 coevolutionary theoreticians. Another basic insight is that geographic areas inhabited by various species are seldom identical, and therefore coevolution happens only where the species live together. Thus most coevolutionary phenomena are location-specific, in some extreme cases leading to formation of sub-species that are dependent on the presence in their habitat of other species. Coevolutionary theorists speak of the "geographic mosaic of coevolution"[130] and much of their work is dedicated to creating a descriptive cartography of such phenomena. This approach may lead to theorising on some profound mechanisms of evolution, but has little chance of resulting in generalisations applying to the species as a whole, because coevolution will

[128] See for a more elaborate explanation of these concepts Ackoff and Emery (1972).
[129] See for example Ehrlich and Raven (1964); Nitecki (1983) or Thompson (2005).
[130] Such as Thompson (2005).

work differently in different habitats, depending in part on which other species are present. This is worth keeping in mind when considering whether results derived from the observation of the Salim Group can be generalised to all ethnic Chinese family business groups. Detailed results that can be generalised across ethnic Chinese family firms are unlikely, but it is possible to unearth some patterns that may apply to other cases.

The metaphor of coevolution has recently been applied to the organisational sciences field[131]. 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[132]. As a result of organisations adapting to the environment reactively, organisations reflect past institutional contexts, i.e. they lag behind. Path dependency claims that as organisations develop, their options to exercise strategic choice are more limited in view of being stuck in old routines. Institutional theory and path dependency tend to focus on what we have earlier called passive or reactive roles for firms. The strategic choice theory however, assumes that organizations can meaningfully exercise purpose and that strategy is not solely the outcome of contextual variables[133]. The advantage of coevolution 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 coevolution 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 coevolution 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 coevolution studies is still relatively modest. The reason for this may be the considerable effort required to engage in longitudinal, context-specific studies on multiple levels. 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[134]. Only a few such studies are specific to Asian family business groups. The author is aware of only one coevolutionary

[131] 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).

[132] For example Scott (1995).

[133] The literature on strategic intent has been summarized in a recent article (Child, 1997). In addition, earlier scientists subscribing to a pragmatist view have also explored the idea of organizations as purposeful systems (Ackoff and Emery, 1972).

[134] E.g. Djelic and Ainamo (1999); Haveman and Rao (1997); Jones (2001); Lampel and Shamsie (2003).

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[135].

Only a limited set of empirical studies is concerned with studying one firm (on a micro-level) and its institutional environment (on the macro-level). Very few of those studies, however, are situated in an emerging market context, where the particular institutional context is theorised to lead to specific strategic choices of diversification and pyramid ownership structures. A notable exception is the study of a Brazilian regional telecommunication company[136]. In this study, the institutional context, industry- and firm-level processes are combined. The results indicated that emerging market environments give rise to different types of coevolution patterns. Although institutional restrictions may limit strategic choice, companies may increase their freedom to influence corporate strategy by immersing in political networks. As far as the author knows, 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. As such, the Salim Group, with its close relationship with Suharto, offers a unique case to study processes of mutual influencing between company and environment.

Bringing corporate strategy and the factors influencing it together in a co-evolutionary framework helps one understand strategic development of a company over time. Especially when such studies are set in an emerging market context, hitherto unexplored patterns of passive, active and pro-active strategy formulation can be analyzed.

2.8 Emerging Framework

This research started with a broad research question, namely how to interpret the corporate strategy of the Salim Group over time. The literature overview has contributed to a more in-depth understanding of possible factors influencing corporate strategy, which can be categorised in internal and external factors.

Family business literature gives rise to the following observations:

- Cultural values of the entrepreneurs matter, in particular in the early stages or the business development;
- Although small Chinese family businesses were initially seen as a consistent form of management, larger and older firms do not display all

[135] See Carney and Gedajlovic (2002).
[136] See Rodrigues and Child (2003).

the traditional characteristics, but have also added more recent and more sophisticated management models;
- Generational changes give rise to a new strategy.

Diaspora literature gives rise to the following observations:
- For vulnerable migrants, forming stable support networks can lead to success;
- Building crony networks with officials can offer advantages and protection in a corrupt host culture;
- Intra-ethnic networking practices can be a response to a weak institutional context and can lead to internationalisation;
- Over time, networking skills may decrease in importance.

The Institutional/Strategy literature gives rise to the following observations:
- The institutional environment influences business strategy;
- Diversified family business groups may be a response to, or a competitive advantage in, a weak institutional environment with high transaction costs;
- As institutions modernize, corporate strategy will also change from a relationship-based strategy towards a rule-based strategy.

Researchers studying strategic management 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 Peng[137] 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 expect companies to show a movement from a relationship-based to a market-based model as emerging markets develop and adopt more liberal market economies.

Based on this literature review, we expect that generational change is likely to be a factor influencing the change in strategic posture, as is internal growth and increased size and complexity of the firm. External factors are

[137] Peng (2003).

also likely to make a difference, in particular the changing institutional context with elements such as economic growth, policy changes and regime changes. Internal and external factors co-evolve with strategy.

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 in several ways. 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 oscillate between these models at an irregular rate, which at times is so fast as to create the impression of a simultaneous pursuit of both. We propose to view this oscillatory pattern as a mechanism for dealing with a strategic dilemma: the pull of seemingly incompatible relationship- and market-based models.

Strategic dilemmas have been a staple of management literature, especially since the publication of March's seminal paper on the dilemma that firms face in properly balancing the requirements for exploitation and exploration[138]. Some authors seek to dissolve the dilemma by suggesting alternative organisational forms that can simultaneously pursue two opposing strategies[139], but most seek to establish, empirically or prescriptively, an "optimal balance" between the two[140].

A recent paper proposes a novel approach to strategic choices, in particular the exploitation-exploration dilemma[141]. Based on a ten year case study of an international cosmetic company they detect irregular oscillatory dynamics, whereas the firm continually shifts over the spectrum delimited by the two opposing poles, depending on objective factors influencing the business environment but also personality of top managers. The concept of oscillatory dynamics is imported by the authors from anthropological studies of traditional Hindu societies[142]. These findings are in line with other theoretical work within the field of management on vacillation patterns in organisations[143]. Oscillations happen at different time intervals because external factors and internal adjustments give irregularly timed stimuli.

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138 See March (1991).
139 For example Miles et al. (1999).
140 For example Bradach (1997); Brown and Eisenhardt (1997); March (1999), Tushman and O'Reilly (1996); Tushman and Smith (2002) and Warglien (2002).
141 See Thomas, Kaminska-Labbé and McKelvey (2005).
142 See Dumont (1966).
143 See Nickerson and Zenger (2002).

In this study we explore whether the notion of oscillatory dynamics can be applied to describe the dialectic between the relationship-based and the market-based drivers of Salim Group strategy. Based on the theory review, it is expected that evolution from a networked model to a modern market-based strategy is not linear, and that oscillatory patterns are likely.

Summarizing, this literature review suggests that the strategy of a company like the Salim Group may change over time as a result of internal and external factors, which are interdependent and irregular. These factors can be understood and clarified with the use of an umbrella concept such as coevolution. Based on the literature, key elements of the strategic model are argued to become more or less important over time.

Chapter 3: Methodology

3.1 Introduction

Although various studies have addressed ethnic Chinese business groups in a comparative manner using quantitative analysis of publicly available financial data[144] there are few in-depth longitudinal studies of specific ethnic Chinese business groups. As a result, we have almost no detailed information on how strategy in an ethnic Chinese business groups evolves over time, what influences it and what patterns arise. This single case study research fills a part of that gap.

Case research as a method is common throughout the social sciences and a variety of research approaches and practices have been developed over the last decades. The following section of this chapter describes what type of case methodology is used and which research strategies have been chosen. The third section combines these with the extra requirements for case studies using the coevolution approach. The fourth section then combines these and spells out the case study design and approach chosen for the Salim Group case. In the fifth section a detailed description of the different sources used is given. The sixth section deals with the first stage of the case analysis: emerging themes. In this section three themes that emerged from the data after a first analysis are presented. The seventh section then addresses analytical methods to further dissect the themes by doing different types of qualitative and quantitative analysis. In the eighth section we focus in detail on two research strategies to address the themes in this study: data coding using a quantitative time-series approach and a qualitative time-series approach. These two approaches are described in detail. The last section of this chapter deals with how the results of applying these methodologies will be presented in the chapters that follow.

3.2 Case Research: Varieties and Choices

A general definition of a case study is given by Yin in his seminal work on case research methodology:

> 'A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially

[144] For example Claessens et al. (1999).

when the boundaries between the phenomenon and context are not clearly evident'[145].

This section outlines the case selection process and the type of case methodology chosen. Four case study dimensions are discussed: single versus multiple case studies; statistical versus theoretical sampling; positivist versus classical cases; and qualitative versus quantitative research.

Multiple cases allow comparison across different companies, and may lead to identification of patterns that apply beyond a single occurrence. Single case studies can never be representative for a larger population, but they can unearth patterns and phenomena that are not unique to the case and can be validated or applied elsewhere. Given a similar time frame multiple studies can be characterised as giving a broader picture of a phenomenon, while single cases can illustrate the research topic in an in-depth manner. This research focuses on a single, albeit elaborate and complex case study. The reason for preferring a single case over multiple cases is the possibility to do an in-depth longitudinal study which also encompasses the context of a firm.

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 phenomena of interest. As the primary interest was to study the strategy development of a large ethnic Chinese family business group over time, a list of the 23 largest ethnic Chinese conglomerates in Indonesia was used to make an initial selection[146]. The Salim Group was by far the largest group on that list. The Salim Group is not only the largest but also a unique case in the sense that it was the largest business group in Southeast Asia and that it was in a unique position of power in the Indonesian context. What makes this case particularly interesting is that, as discussed in the previous chapter, existing theories (on Chinese family business, diaspora business networks and on emerging market strategy) seem collectively insufficient to explain the development of the strategy of the Salim Group, especially when one takes a long-term perspective. A certain degree of openness to study and cooperation on the part of the company was another selection criterion. Getting access to the top management of an ethnic Chinese group is not

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[145] See Yin (2003, p. 13).

[146] These 23 firms are taken from the list of top-30 largest groups in Indonesia. Of the 30 on the list 23 groups were owned by people or families of Chinese descent. The list was developed by Sato (2004).

easy, and the fact that interviews with the leaders of the Salim Group were possible was a lucky coincidence.

As was briefly mentioned in the introduction, the Salim Group, by virtue of its prominent role in the Indonesian economy and politics, can be seen as a polar or extreme case. It is not an average company but the most successful, most prominent and largest in the country with the most intimate connections to Suharto. None of the other groups has these "extreme" features. The Salim Group is, in the eyes of many Indonesians, the embodiment of everything that is positive and negative about an ethnic Chinese business. The advantage of such extreme or polar cases is not that they are representative for a larger group, but that they may, due to their unique characteristics, lead to the development of new or different theories[147].

There are different varieties of case studies. One way of looking at case studies is to distinguish between positivist and classical case studies. An interesting discussion emerged within the field of management about the pros and cons of case studies as a research method. Eisenhardt wrote a seminal article on the importance of case study research in the field of management and the merits of this method in order to develop new theories[148]. It contained a roadmap of how to build theory from case research. Opponents claimed that it was not essential to focus on developing new concepts, but the merits of a case study were in doing in-depth research, grasping the phenomenon in its specific context, and telling a good story[149]. The first position was later referred to as the "positivist" approach to case studies, whereas the latter was addressed as the "classical" approach to case research. The "classical" authors admitted that telling stories in journal articles was almost impossible due to space restrictions and they argued that books are more suitable for narrating the results of classical case research. This study does not have the kind of space restrictions journals pose, and it can therefore do both. It tells an elaborate story about the strategy development of a company and analyses it, but it also applies qualitative and quantitative techniques to develop novel theoretical concepts that emerge from the case narrative.

Another distinction within case studies is often made between qualitative and quantitative studies. For many academics case study research is almost synonymous with qualitative information, but this is not necessarily so[150]. An a priori choice has not been made in this study. The principle used here

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[147] See for example Eisenhardt (1989).
[148] See Eisenhardt (1989).
[149] See Dyer and Wilkins (1991)
[150] See for example Yin (2003).

is to rely on *relevant* evidence to understand corporate strategy, some of which may be quantitative while other evidence may be of a qualitative nature. The case analysis similarly relies on qualitative and statistical techniques, where appropriate and possible, to demonstrate the coevolution of strategy with its environment.

3.3 Framework for Coevolution Studies

Many coevolution studies are case studies, as this offers a good research strategy for evaluating complex, longitudinal strategic change processes in its specific context. Coevolution cases have to comply with extra requirements in order for the results to reveal coevolutionary dynamics. Two authors have described a framework for research on coevolution, outlining minimum requirements for studies taking the coevolutionary perspective[151]. Below is a list of characteristics for studies on organisational adaptations according to this framework. These are subsequently explained in the following paragraphs:

- Be longitudinal;
- In a historical context;
- Involve multidirectional causalities;
- Incorporate mutual, simultaneous, lagged and nested effects;
- Consider path dependence;
- Incorporate changes occurring at the level of different institutional systems;
- Accommodate economic, social and political macro-variables.

Most research on the evolution of corporate strategy involves short term adaptation or selection studies[152] but in order to show corporate evolution in tandem with its context a long term perspective is necessary. Studying the complex evolution of strategy in a longitudinal manner requires an in-depth study. Lewin and Volberda recommend using a time series approach where changes can be observed or measured by monitoring certain variables over a longer period. The analysis also needs to incorporate contextual factors, including history, but also other contextual factors such as political, social or economic factors. Adaptation of a firm to its environment is enabled and simultaneously restricted by the firms' history - often referred to as path dependence. As an organisation develops it acquires resources and creates routines, which together make subsequent changes more difficult. A company's degree of freedom to choose its strategy is therefore limited by its historical development. When studying how corporate strategy evolves over

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[151] See Lewin and Volberda (1999, p. 527-528).
[152] See Lewin and Volberda (1999).

time in conjunction with the environment the restrictions to adaptation and change have to be taken into account as well as the factors encouraging it.

Changes within a firm and outside a firm, and perhaps in a regional or global context are interrelated, and therefore coevolution studies investigate changes on different levels. McKelvey argues that one should carry out coevolution studies at various levels, namely the micro-, meso- and macro-level[153]. In the case of the Salim Group, the businesses are in so many industries that meso level changes cannot be incorporated in detail, but the group is large enough to show interactions directly between macro (institutions) and micro (corporate strategy).

In order to show how a company evolved over time and in turn influenced its environment the research design needs to be such that mutual responses (or causality) can be demonstrated. These causalities can involve the company adapting to a new environment, but it can also involve the reverse direction. The evolution of corporate strategy is per definition irregular if one understands it as responding to and influencing the internal corporate and external institutional environment. Changes in company and environment are therefore often irregular and of a complex nature. Some factors causing changes are simultaneous or they act together (mutual); the effects may occur later (lagged); or the effect of an event is hidden in or mixed with another effect (nested effects). Single case studies taking a coevolution approach investigate multi-level corporate change processes within their context, over a longer period with a specific focus on complex mutual causalities.

Irrespective of the type of case study, all case research strategies ideally follow logic of design, data collection and analysis. For case study design, data gathering and analysis clear procedures and best practices have been established over the years and throughout the social sciences[154]. The Salim Group research project has been designed with this coevolution framework and the prevailing best practices for case research in mind.

3.4 Case Study Approach & Design

After making basic choices on the type of case study that is preferred, a more detailed case approach was designed. This research was carried out in several intertwined phases:

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[153] See McKelvey (1997).
[154] E.g. Boyatzis (1998); Eisenhardt (1989); Glaser and Strauss (1967); Strauss and Corbin (1998) and Yin (2003).

1. Review of relevant literature and background information;
2. Case study design and preparation;
3. Data-gathering, mostly conducted in Indonesia;
4. Analysis;
5. Writing up results.

At the first stage, the existing literature was summarised and a list of characteristics of ethnic Chinese family business strategy was developed. This list was the basis for the preparation for interviews and it served as a general guideline in the data-collection phase. Also, a broad study of the political and economic development of Indonesia was conducted. Because of developing research propositions over time emerging from the literature[155], a clear idea of what information should be gathered in interviews, what type of documents would be necessary and what additional information was needed from other expert sources. The research focus on strategy evolution guided the choice of data and limited the data collection to those sources that would be relevant to corporate strategy within the specific context.

Because four trips to Indonesia were made in the period 2003-2005, it was possible to develop and test emerging themes gradually, going back and forth from data to theory. Case studies typically have some overlap between the analysis and the data-gathering, some authors even consider this highly desirable[156]. Going back and forth also enabled me to see which sources were missing or how certain emerging themes could be strengthened. In the words of Eisenhardt:

> 'Overlapping data analysis with data collection not only gives the researcher a head start in analysis but, more importantly, allows researchers to take advantage of flexible data collection. Indeed, a key feature of theory building case research is the freedom to make adjustments during the data collection process'[157].

One of the reasons that relatively few in-depth case studies of ethnic Chinese business groups exist is connected to the difficulties associated with such a study. Many business groups shy publicity and are not open for study. Those that are relatively open, such as the Salim Group, are still not known for their transparency. In a corrupt country like Indonesia, an opaque strategy, practiced by many conglomerates, may be more sensible than being transparent. A large amount of information however is public, and thus accessible for research, but not all this information is compatible, useful, or even reliable. In order to overcome the limitations of each type of data, a

155 A recommended research strategy according to Yin (2003).
156 Glaser and Strauss (1967).
157 See Eisenhardt (1989, p. 539).

variety of data have been used in this study in order to obtain more confidence through triangulation.

> 'The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result benefits from the prior development of theoretical propositions to guide data collection and analysis'[158].

The starting point was to investigate the corporate strategy of the Salim Group over time by compiling evidence from various sources, namely interviews, corporate documents, news analysis and other secondary material such as books. The various short trips to Indonesia (usually 2-3 weeks) with at least 6 months in between allowed for reflection and preparation of each trip. In the Indonesian context interview appointments are generally made on very short notice, and I usually spent my first day in Jakarta on the phone, the following days going around for meetings. When I had no meetings I visited libraries, the Jakarta Stock Exchange or the state printer in order to obtain relevant documents. Not all interviews took place in Indonesia, some took place in Singapore, The Netherlands; one in Belgium, one was carried out by phone with a European respondent.

Prior to finishing this study, various academic papers have explored aspects of the Salim Group strategy development, some of which have been accepted for publication in academic journals[159] or have been presented at academic conferences. Insights from reviewers, editors and audience have fine-tuned the ideas presented in this study.

3.5 Data Gathering & Sources

Case research usually is grounded in multiple sources. Within Indonesia reliable written sources are scarce, so interviews were deemed important. 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, 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

[158] See Yin (2003, p. 131).
[159] For example Dieleman (2006) and Dieleman and Sachs (2006).

three types of sources, namely corporate documents (Annex 1); media sources (Annex 2) and interviews (Annex 3). In addition to the three empirical sources secondary data (books, academic articles) have also been used. Each of the data sources will be briefly described and limitations will be discussed (Table 3.1).

Table 3.1 Main Sources Used in this Research

Category of Sources	Specific Sources Used	Number
Interviews	Salim Group managers Academic Experts IBRA executives Former Ministers Financial Analysts Journalists Managers of other Conglomerates Foreign Partners Others	16 7 9 4 2 4 5 3 6
Corporate Information	Annual reports Articles of Association Corporate Information (DNB database)	69 14 122
Media Sources	News Articles (Lexis Nexis database) Background articles	6349 (See references)
Secondary Sources	Books Reports Academic Articles	(See references)

Interviews can take different forms ranging from structured to unstructured. Structured interviews define questions in advance whereas unstructured interviews allow for a conversation-type information exchange. The interviews for this thesis were undertaken in a semi-structured, open-ended manner. Yin writes:

> 'Most commonly, case study interviews are of an *open-ended nature,* in which you can ask key respondents about the facts of a matter as well as their opinions about events'[160].

The interview topics were prepared in advance and covered the strategy, structure, ownership and leadership of the Salim Group and its specific context. On the other hand, there was freedom for interviewer and respondent to pick up related topics and develop new insights outside the prepared questions. Once the first interview with Salim Group leader Anthony Salim had taken place, other managers were also open to interviews. Thus, several board members of key Salim Group companies

[160] See Yin (2003, p. 90, original emphasis).

were approached and interviewed (e.g. Indomobil, Indofood, and UIC). Apart from Salim managers, it was possible to interview a wide range of experts in Indonesia, varying from ministers, consultants, journalists, economists, competitors, partners, bankers and stock-market analysts. These experts were also interviewed using a semi-structured interview method, but the interviews usually focused on the topic of expertise of the person interviewed. Several people were interviewed more than once, in order to develop a relationship or discuss topics in more depth. Interview reports were written for every interview conducted, usually on the day of the interview so that the information was not overly distorted by human memory processes. Interviews with CEO Anthony Salim and Deputy Benny Santoso were considered very important and these have been recorded and transcribed. An overview of interviews, by categories of respondents, is available in Annex 3.

A first limitation of the interview results was connected to ethical issues. Since the Salim Group was a sensitive topic, most of these sources preferred "speaking off the record" and did not want the interview results to appear in print with their name linked to it. As a result of this, ethical issues around protecting the identity of respondents became important. In an access database all interview information (respondent, date of interview, location, time of interview) was stored, and an arbitrary code was assigned to all respondents. The information from these expert interviews will not be linked to any specific person (except the interview with Anthony Salim, whose identity has not been concealed as he is the key person in the Salim Group[161]). All interviews have been summarised, and the anonymity principle required leaving out certain information that could reveal the identity of the respondent. As a second step, a number of interviews that the author judged sensitive were sent to a respondent and an academic, both familiar with the Indonesian situation and sensitivities, in order to double-check whether they could not guess the identity of the respondents. In addition, one of the respondents from the Indonesian Bank Restructuring Agency, who expressed concern about revealing his identity, has also been sent his summary as well as summaries of a number of similar respondents. None of them was able to relate stories to people, although the respondents recognised their own stories. The interviews are partly available in this study in the form of numerous quotes.

Another limitation of interview data was the possible bias of the person interviewed. This problem was aggravated by the political sensitivities around the Salim Group. People generally had very strong opinions on the Salim Group. Theoretical sampling of respondents across a range of

[161] A section of the interview with Anthony Salim was qualified by him as off the record, and this has been omitted from the transcription.

categories (from Salim managers to politicians to foreign partners) was one of the ways to address to possible interview bias. A related limitation could be the way in which respondents were selected, namely through a chain of connections. In Indonesian culture it is almost impossible to knock on the door of a secretary and get an appointment with someone at a relatively high level in society or business. Connections are important to open doors. Once you have interviewed someone, you usually receive advice as to whom to interview next, and usually the person is willing to provide an introduction. This strategy has the implicit danger of ending up with a number of likely-minded respondents. This problem potentially exists, but it should be noted that the respondents do not form one single chain of contacts. Starting points were made through various connections, ranging from people in academia to people in business. For example: one of my academic contacts knew a well-known economist in Indonesia, who had a cousin in business, who had another cousin in business who was very senior and knew the Salim Group well, which was how I arrived in Anthony Salim's office. One of my former MBA classmates happened to work at the Indonesian Bank Restructuring Agency, which greatly facilitated contacts there, and one of my friends, a London-based hedge fund manager, introduced me to an analyst in Jakarta, who connected me to another Salim Group company, etc.

The second data source is corporate documents. The Salim Group has a very clear PR policy, which is to stay away from media as much as possible. As a result of this policy limited written corporate sources are available on the group as a whole. The last group brochure, for example, dates from 1996. Because of limited legal obligations to provide information on private companies, I was not able to get a good insight into privately held companies belonging to the Salim Group, and relied on such limited sources as articles of association, a Dun & Bradstreet company database and media sources. Companies listed on the stock-exchange however, are obliged to publish annual reports, and I have studied eight listed Salim companies over a longer period (1994-2003, if available). An overview of the annual reports used in this study is available in Annex 1. In addition to annual reports and a brochure, rather elaborate information on some Salim Group companies has been published by the Indonesian Bank Restructuring Agency (IBRA). During the Asian Crisis the Indonesian Banking system rapidly disintegrated and failed, and the government set up IBRA to deal with ailing banks. Many banks, including the Salim Group bank BCA, collapsed and the government decided to recapitalize the best banks. As a compensation for the capital injection with public funds, the government demanded repayment from the owners either in cash or by transferring companies. The Salim Group transferred 107 companies to IBRA which subsequently sold them to interested buyers. As part of that sales process IBRA published elaborate information bulletins on the former Salim companies. These IBRA documents have also been used as a source of information[162].

A possible limitation of sources such as annual reports is that the information in it is drafted according to prevailing regulations, and thus only gives a partial picture of some of the companies belonging to the Salim Group. If the public company has businesses in a variety of sectors it can sometimes be difficult to interpret the aggregate financial information and distil from it information about corporate strategy. The annual report of a company such as Indofood will be a rich source of information, but as such reveals little about the overall Salim Group strategy. Only when annual reports are compared over a longer period and across companies will evolutionary patterns within the Salim group become apparent.

The third source of information was reports in the media on the Salim Group or on Salim Group companies. A structured review of major newspapers and magazines – both local and international - has been carried out through archives and electronic databases, in particular the *lexis nexis* international news database. The news analysis covers reports from all over the world in general or specialised media. This included generalist news media such as the *Economist*, the *Financial Times* and *Business Week*, but also local papers such as the *Jakarta Post* and specialised media sources such as *Chemical Week*. Structured searches were carried out with Liem Sioe Liong and/or Salim Group as keywords, and in addition specific database searches were done on separate companies such as Indocement or Indomobil as well as on a list of about 300 private Salim companies. In total 6349 articles were selected, which covered thousands of pages. The procedure followed is described in Annex 2.

There are serious limitations to studying media sources. The first possible distortion is the policy towards media in Indonesia. During the Suharto period a number of topics were taboo and dangerous for the media to report on. These included controversial issues such as Indonesia's military strategy for East Timor, but also the Suharto family and crony businesses, which included the Salim Group. This provides a serious limitation, and prior to 1998 most information on the Salim Group is found in Australian, Japanese or international news media. An international news review, rather than a narrow focus on Indonesia, therefore partially mitigates this shortcoming. After the Asian Crisis, the media policy changed, and newspapers and magazines freely wrote about the Salim Group.

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[162] These included 45 monthly newsletters, a strategic plan for IBRA, two IBRA annual reports and two Holdiko Memorandums. These sources are listed under the reference section at the end of this study.

The second limitation is that news reports appear in "waves". A topic such as "ethnic Chinese dominance in Asian business" appears every now and then, and if it appears, many newspapers start to cover it, even though the actual news value of such reporting may be limited. The internationally operating topical waves in media should be considered when interpreting such material.

A third caution is that newspapers do not reveal sources. The Economist, for example, has repeatedly reported that the Salim Group has smuggled arms between Singapore and Indonesia in its early days. It is not clear from these reports however what the source of this information is. Checking media sources against other sources is an important way to minimize some of the limitations of media analysis.

The secondary materials used in this study included books, reports or articles on the Salim Group or related topics, which are listed in the references. Using secondary data has the limitation that it contains the interpretations or biases of the author or researcher who reported on the Salim Group. Yet, for the period prior to 1994, secondary materials have been used to analyze early Salim Group history.

For a Dutch person, doing any academic research in Indonesia is a challenge, and doing research on the Salim Group, widely known to be very closed, is a rather big challenge. Not surprisingly, the researcher was confronted with several of the limitations described above. The limitations came down to a general shortage of relevant written sources and the ample availability of oral, often biased, sources. On the other hand, the researcher was also lucky enough to find several people in Indonesia who provided me with excellent introductions and who were willing to support me. They opened up new data and resources for me. Since academic studies are rarely based on the Jakarta-grapevine - where interesting information circulates - it was necessary to cross-check my information and use multiple sources. The limitations associated with each type of data used in this study are partially mitigated by the fact that a combination of data is used (triangulation principle). The triangulation principle implies that sources need to converge before one can interpret a trend in the data. In this light, when coming to a line of argumentation later in this book, a variety or combination of sources is used to support the conclusions. An example of applying the triangulation is the coding methodology, which will be explained later in this chapter. But in general, throughout this book, one will find arguments supported by multiple sources.

3.6 Thematic Analysis

The data gathering phase resulted in an enormous amount of data, usually fragmented pieces of information. The first step in the analysis was to internalize the material and pinpoint emerging themes. Thematic analysis focuses on emerging patterns in the data, and on procedures for addressing these. Thematic analysis can either be based on prior theory or research or can emerge from the data itself or a combination of those[163]. After carefully studying all the material gathered, 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? What was in and what out? 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. From the material gathered 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[164]. 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 one aspect of the

[163] See Boyatzis (1998).

[164] To appreciate the completely opposite extremes represented here I note that more than one respondent in favor of the "cronies" position insisted that my research was so dangerous that I should fear 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 its leadership personal friends.

literature, namely the idea of the existence of a dichotomy between relationship-based strategy (expressed in the first theme) and a market-based strategy as articulated by scholars such as Peng[165] and discussed in Chapter Two. 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 described in the previous chapter that the Salim Group strategy could be understood as moving from a relationship-based model to a market-based model[166]. 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 environment?

The three themes that emerged from the first analysis provided clear questions. The subsequent rigorous case analysis aimed at investigating the three themes further and possibly answering the questions through quantitative or qualitative methods which are the focus of the next two sections.

3.7 Analytical Framework

After addressing emerging themes, the next logical step was to reorganize the data in such a way that emerging themes could be analysed. Three phases can be identified in the analysis of case data: data reduction (selection, simplification, abstraction of case data); display (charts, tables, etc); and drawing conclusions by building a chain of evidence[167]. The

[165] See Peng (2003).
[166] For example Peng (2003) and Peng and Zhou (2005).
[167] See Miles and Huberman (1984, p. 21-23).

methods employed to reorganize, simplify, display and interpret the case results are described in this section.

In the first stage of the analysis process several sources were reorganised and combined:

- Based on the annual reports, a database with all board positions of listed Salim Group companies was made, which gave an indication of who could be considered the leadership of the group, how this differed over time, how control was divided among family members and what was the role of professional management versus family management over a period of 10 years.
- Also based on the annual reports, financial trends and analyses were made, which give an indication of the size, growth and composition of the Salim Group over time. For all listed Salim companies the strategy development and corporate structure was analyzed.
- Based on World Bank reports, economic indicators by the Asian Development Bank, and updates in the Bulletin of Indonesian Economic Studies[168], a survey of the business context was conducted showing policy changes over a longer period and giving insight in the Indonesian economic context and institutions.

How can one "map" the strategy of the Salim Group and subsequently investigate the influence of different factors or events on the strategic pattern over time? First, it is reasonable to assume that corporate strategy of the Salim Group is reflected by the combination of all its strategic decisions over time, and is composed of a set of separate individual business events[169]. 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. A new business event is anything of importance outside continuing the existing businesses, and can include such things as starting a new venture, acquiring or disposing of a firm, starting a joint venture or expanding or reorganizing existing businesses. In line with the triangulation principle, all sources were

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[168] The Bulletin of Indonesian Economic Studies is an academic journal which publishes articles on the Indonesian economy, including quarterly updates on the status of the economy and economic policies implemented.

[169] In this definition I assume corporate strategy to mean 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).

reviewed and if possible combined to create a chronological list of 277 important business events for the Salim Group. Each event was displayed on one page. Figure 3.1 gives one example of such a business event and a full list is available in Annex 6.

Figure 3.1 Example of Business Event

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 tonnes of cane a day to produce about 120,000 tonnes 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 manufacturing 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

3.8 Time Series & Coding Procedure

The analysis of the business events followed the chronological time series methodology[170]. Times series analysis is used to investigate whether there is a match between the data points and a theory or proposition. In this case I am interested in whether the corporate strategy of the Salim Group follows a specific trend. In Chapter Two assumptions on the interplay among three separate phenomena over time were developed: the institutional context; internal dynamics within the Salim Group and the Salim Group strategy,

[170] See Yin (2003).

where it is expected that strategy moves irregularly, but overall from a relationship-based model to a market-based model[171].

In order to do this the concepts relationship-based and market-based strategies should first be operationalised. Making the concepts "market-based" and "relationship-based" strategies measurable is difficult in view of the need for an elaborate, consistent, set of data. As there is no commonly accepted indicator for a relationship or market model, I propose to base these concepts on several variables.

In order to measure relationship-based and market-based strategies over time I developed four indicators and a coding strategy that allowed measuring 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. These indicators emerged from the theories in the previous chapter and are displayed in Table 3.2.

Table 3.2 Strategic Themes

T	Indicators	Source
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. A first characteristic of a relationship-based strategy is therefore that Chinese form ethnically Chinese business networks. We would expect the percentage of new or continued business partnerships with other Chinese to diminish as the Salim Group evolves. Secondly, another set of theories suggests that ethnic Chinese family firms are characterised by crony relationships with powerful officials. We would therefore expect that the number of business deals where crony connections are clear or rumoured, decline as the group evolves. Together these network strategies represent the relationship-based strategy.

Market-Based. Measuring market-based strategic models is not easy exercise as the literature gives little 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 would encourage conglomeration whereas this strategy has become rare in Western

[171] Following Peng (2003).

economies. Less diversification could therefore be an indicator of a more market-based strategy, and initially I tried to create a measurable variable by looking at the fit with 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 with the existing portfolio, was problematic. First, it is hard to assess, when one studies a large and elaborate conglomerate, whether a new business fits the 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 with the current portfolio, so this type of measurement was not considered useful. Secondly, the literature also suggests that ethnic Chinese family firms modernize 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), which is expected to increase over time. If a company extensively does business in market-based environments, such as in the United States, one can assume that this company avails of capabilities 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. Following the literature on globalisation of ethnic Chinese firms, the expected pattern is that the percentage of new business deals that are in these contexts will increase. 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. The two independent coders were given eight business events and were asked to indicate the presence of four themes. The purpose of this test-phase was to see if the concepts were clear to an outsider and whether they could pinpoint the presence of those indicators in the data. On the basis of this test it was decided not to work with an indicator for diversification because the test-coders found it confusing. Instead, a more straightforward indicator was chosen for the market-based model, as has been explained in the previous paragraph.

After developing the indicators addressing the first two emerging themes, the business events were analyzed 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'[172]. The unit of coding taken in this study was a

[172] See Boyatzis (1998, p. 63).

new business event. A total of 277 events are in the database of which 266 have been coded. The remaining 11 events happened prior to 1984. For the years prior to 1984 there was often only one event in the database, which was considered too little for a meaningful score. It was then decided to take the period 1984-2003 (20 years) as the period of analysis.

The purpose of coding raw data is to allow different data to be compared and processed using quantitative techniques. In this research, the different themes together build a theoretical framework, in which case the process is called axial coding[173]. In theory, different quantification procedures can be applied, including a present/not present analysis; counting the number of occurrences of a theme; and measuring intensity (interval data) by assigning a score to an event. Although I am interested in this research in how corporate strategy moves on the relationship-based strategy to market-based strategy continuum over time (implying an intensity), I nevertheless opted for a very simple scale. Generally speaking the clearer the coding instructions are, the higher the reliability of the code, which is an important indicator for the quality of the research process. In order to maintain reliability of the data I opted for a simple scale in which events were coded 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 (Table 3.3).

Table 3.3 Coding Strategy

T	Themes:	Rating
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 different codes have been given a label; description; indicators; examples and exclusions or special conditions. These are available as a codebook in Annex 4[174]. A small sample of the results of this coding procedure is given in Table 3.4. In order to combine the codes into a single graph a scaling procedure was necessary. Scaling is combining scores into a single value. To enable a corporate strategy trend-line, the values of all scores were averaged per year and plotted on a chart.

[173] Strauss and Corbin (1998).
[174] See Boyatzis (1998).

Table 3.4 Example of Coding Business Events

Year	Short title	Ethnic Chinese Relationships	Political Connections	Foreign Partners	Market-Based Environment	Total
1993	Jakarta Water Joint Venture with Suez Lyonnaise des Eaux	0	1	1	0	**0**
1994	Salim Group invests in aerospace industry Batam	0	1	0	0	**1**
1994	Salim Group in pig farming with US agribusiness group Bunge	0	0	1	1	**-2**
1994	Salim Group in oil refining and polypropylene Philippines	0	0	1	0	**-1**
1994	First Pacific sells company to Salim Group	0	0	0	1	**-1**
1994	Salim Group sets up noodle company in Nigeria	0	0	0	0	**0**
1994	First Pacific sells interest in Internatio-Muller	0	0	0	1	**-1**
1994	Salim, Mazda, Tomen, local firm in automotive in Fuzhou	1	0	1	0	**0**

The analysis of case data can suffer from biases of the researcher which 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 judgments and comparing these with the researcher's judgments. This research worked with *interrater reliability* by measuring the percentage agreement on presence. The formula recommended for this type of presence/non presence scoring is[175]:

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

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 business events achieving interrater reliability of between 74% and 77% (scores over 70% are normally considered sufficient), displayed in Table 3.5.

[175] According to Boyatzis (1998).

Table 3.5 Interrater Reliability

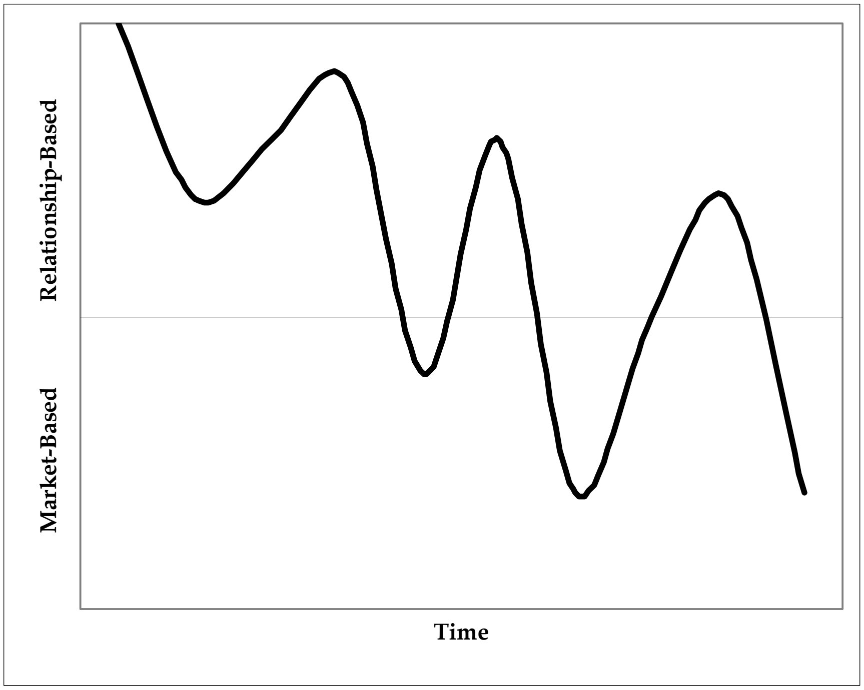
T	Indicators	Reliability
T1	Ethnic Chinese Relations	75%
T2	Political Connections	77%
T3	Foreign Partners	76%
T4	Market-Based Environment	74%

The relative importance of all the four indicators over time in itself will generate interesting information that can support the underlying theoretical notions (or reject them), and the results of this exercise will be interesting for each of the individual indicators. However my ambition is to combine the results into a new framework resulting in understanding the interplay of different factors influencing the Salim Group corporate strategy. Explaining the strategy of the Salim Group will also rely on interpretative methods, as not all factors can be captured with quantitative analysis. The third theme, which hints at the relative importance of passive, reactive and pro-active strategies for the Salim Group will rely mainly on interpretative methods. It is argued that the strategy of the Salim Group is influenced by internal as well as external factors, and it may therefore not necessarily follow a linear pattern. Strategy could also display an irregular oscillation. Using this coding strategy, one can visualise the data in a "map" which enables one to detect trends in corporate strategy development (Figure 3.2).

Quantitative techniques, as described above are not enough. In addition to the statistical analysis the rich case data will also be summarised and analyzed 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 3.2.

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 different techniques are opposed, such strong conclusions are not possible given the mixed results.

Figure 3.2 Expected Corporate Strategy Pattern



3.9 Presentation of the Case Study Data and Conclusions

The following chapters will first tell a rich and detailed story, full of interesting details, anecdotes and quotes. This story will then be analyzed and interpreted using the procedures described in this chapter. It will be broken down, reorganised, and interpreted in the light of different theories. Chapter Eight then brings the narrative and the different types of analysis together and evaluates the research results. Chapter Nine interprets the results, relates them to theories and formulates conclusions.

Chapter 4: 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

4.1 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-July 1997; from July 1997-2000 and from 2001-2003.

4.2 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 southeast China[176]. He was the second son of a rice-farmer and left China for the Dutch East Indies

[176] See Sato (1993). Fuqing is sometimes spelled Futsing.

in 1938[177]. According to some sources, he had to leave local junior high school at the age of 15 due to poverty, which forced him to run a stall selling noodles[178].

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 momey for the trip. He arrived in Java and joined his brother and uncles in the small town of Kudus on Central Java (Figure 4.1)[179].

Liem's migration was part of a long migrant tradition. Since the VOC, (*Verenigde Oost-Indische Compagnie* or Dutch East Indies Company) set up its headquarters in Batavia on the island of Java in 1619, there has been a more substantial and organised Chinese community[180].

The Chinese migrant community was and still is divided into the *peranakans* (Chinese born locally) and the *totoks* (newly arrived Chinese)[181]. From 1740 onward, the Dutch tended to separate ethnic groups, and the Chinese were assigned their own residential quarters in the cities[182]. Within the Chinese community, people were further divided into dialect groups (*bangs*) and subdivided in clans[183]. Dialect groups were historically specialised in certain professions[184]. To date associations based on dialect groups play an important role in ethnic Chinese business, especially among the *totok* Chinese.

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[177] 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.
[178] Suryadinata (1995, p. 139) reports that Liem ran a noodle shop.
[179] According to Soetriyono (1989). The Dutch colonial spelling is Koedoes.
[180] 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).
[181] 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 less assimilated and culturally closer to China. The word *totok*, which means newcomer, has also been used for Dutch newcomers to Indonesia, but in this thesis it refers to those Chinese migrants in Indonesia born in China. Another term used for new Chinese migrants is *sinkeh*.
[182] See Onghokham (1989).
[183] See Cheng (1986).
[184] This dialect group specialisation existed until around 1970 (Post, 1997)

Figure 4.1 Colonial Dutch Map of the Semarang-Kudus Area

Source: Library Royal Tropical Institute, Amsterdam

Liem Sioe Liong, being from Fuqing, is a Chinese from the *hokchia* dialect group[185]. 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[186].

From the mid-nineteenth century to the mid-twentieth century the number of Chinese immigrants to Indonesia rose substantially[187]. 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[188].

Throughout history, as a group, the Chinese have generally been better off than the Javanese peasants and masses, often acting as traders and

[185] The *hokchia* dialect group is often analysed together with the *xinghua* group (sometimes spelled *hengua*), which comes from neighboring areas in Fujian Province in China.
[186] See for example Post (1997).
[187] See Coppel and Mackie (1976).
[188] As noted by Twang (1998).

middlemen. In 1930 according to one research, 58% of the Chinese in Java were engaged in trading activities[189]. The Dutch colonial rulers gave the Chinese the legal status of "*foreign Orientals"* which was economically higher than the indigenous population[190]. But they were also regarded with some suspicion by the Dutch rulers. This suspicion continued when Indonesia declared itself an independent nation state in 1945 and is present until this day[191].

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 was already there for several years, as well as two uncles. They gave him the opportunity to join them in business (peanut oil trading) 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[192]. His younger brother Liem Sioe Kong followed him after several years and the three brothers jointly formed a small company trading food products[193]. 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[194]. Liem later changed his name to the Indonesian-sounding Soedono Salim, following the example of many Chinese Indonesians[195]. The Javanese meaning of this is the following: *soe* = good; *dono* = capital; *sa* = three (referring to three brothers) and *lim* refers to Liem[196]. Yet Liem is referred to by both his Chinese and Indonesian name to date, and the Indonesian media often call him *Om* (uncle) Liem.

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[189] See Coppel and Mackie (1976).
[190] See Lloyd (2001).
[191] 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*".
[192] See Twang (1998).
[193] 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*.
[194] See Robison (1986).
[195] It is not completely clear when this name change happened, but my interview results show that this name change was probably in the 1960s. This is likely because in 1968 the Chinese were pressured to integrate into Indonesian society and adopt Indonesian names (Elson, 2001)
[196] According to Soetriyono (1989).

4.3 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[197]. Liem later said that he was arrested by the Japanese, accused of illegal possession of arms and interrogated for a week[198].

Liem formed 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[199]. 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)[200]

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[201]. This happened in a context in

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[197] See Twang (1998).
[198] According to Soetriyono (1989).
[199] According to Vlasblom (1993). This not unlikely since the business environment for Chinese was difficult in those times. Mackie (1976) notes that sporadic attacks on Chinese happened during periods where the established authorities lost control, such as at the end of the Japanese occupation and from 1945-1949.
[200] Interviewed in Tempo (1984). Author's translation.
[201] See Twang (1998).

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[202].

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 fought against the nationalists, and some of their leaders went into hiding. His biography describes that Liem was part of the organization Futsing Hwee, which was in turn part of the Chinese organization Siang Bu. Leaders of that organization 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. For a year Liem took care of his guest, reportedly without knowing who he was. This guest eventually turned out to be Hasan Din, leader of the organization named Muhammediyah, and also the father-in-law of Sukarno[203].

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 connectioned 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[204].

Liem's trade with the Diponegoro division continued to be facilitated by his excellent connections, including Hasan Din[205]. Hasan Din was later reported to be one of the co-founders of the Salim Group[206] and he acted as director of several of Liem's companies[207]. But Liem was reportedly also very apt in trading under difficult circumstances. At that time, Lt. Col. Suharto, who was also to become president and a key connection for Liem, played an important role in the Diponegoro division. Despite Liem's role as a supplier

[202] According to Post (1997, p. 148).
[203] See Soetriyono (1989).
[204] According to Robison (1986). Some sources (Bresnan, 1993) also speak of smuggling trade with 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.
[205] According to Elson (2001, p. 22).
[206] See CISI Rama Utama (1989).
[207] See Soetriyono (1989).

for the army division, it is not clear if they had already been introduced to each other at that time.

4.4 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[208]. Chinese capital came under scrutiny as well since some Chinese were seen as collaborators of the Dutch colonial regime[209].

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*-programme. 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[210]. 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'[211]. The *Benteng* programme - and other similar programmes 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 environment became

[208] Dutch companies were nationalised in 1957/8 and later British, American and other foreign capital followed between 1963-1965.

[209] An example of the difficult business environment is the confiscation of the Indonesian assets of the largest Chinese-Indonesian conglomerate at the time, the Oei Tiong Ham concern, in 1961.

[210] Many of the importers received a license because of alliances with the political power, and many "importers" sold their license on to another person, often Chinese. 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*".

[211] See Dick (2002, p. 185).

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 recent 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[212]. 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[213]. 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'[214].

> '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 with a few other partners:

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[212] According to Elson (2001, p. 64).

[213] 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.

[214] Crouch, 1978, p. 22.

> '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'[215].

According to Anthony Salim, son of Liem Sioe Liong, 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'[216]. 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)[217]

> '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, for example from the Chinese community or from banks.

Anthony Salim clarified 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 private bank of Indonesia[218]. One author argues that the rise of Liem happened parallel to the rise of the *hokchia* group and can partly

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[215] See CISI Rama Utama (1989, p. 400).
[216] Quotes stem from the author's interviews with Anthony Salim. All further quotes also stem from interviews unless indicated otherwise.
[217] Interview with Liem Sioe Liong and Anthony Salim in Tempo (1984). Author's translation.
[218] According to the 2003 annual report of BCA bank, the bank was started 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 PT Bank Central Asia in 1974.

be explained by his alliances with fellow dialect members[219]. He initially expanded in those lines of business that the *hokchia* 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'[220].

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[221]. 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. From trading he moved into manufacturing and banking.

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219 See Post (1997).

220 See Robison (1986, p. 297).

221 This is confirmed in several interviews with former policy-makers and researchers at the time. An exception being the Oei Tiong Ham concern, but this large company was nationalised in 1961.

By the time president Suharto took over, in the mid-1960s[222], the economy was in a terrible condition with hyper-inflation (600% in the mid 1960s) and a huge state debt burden[223]. 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 5-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. From 1967-1997 GDP grew on average 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[224]. Liem began to be 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. Waringin[225] (export of rubber and coffee) and P.T. Mega (import of cloves). The latter was one of the two companies that were 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[226]. These trading businesses in basic commodities gave Liem annual revenues of USD 340,000 between 1968 and 1970[227].

Around the end of the 1960s, Liem expanded his network of partnerships. Apart from Djuhar Sutanto, who also originated from Fujian; Ibrahim Risjad,

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[222] 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 March 11, 1966, Sukarno signed a decree giving Suharto considerable power, but Suharto was not officially acting president until 1967, and officially inaugurated as Indonesia's second president in 1968 (Thee, 2002).

[223] According to Hofman et al. (2004).

[224] See Elson (2001, p. 162).

[225] 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.

[226] See Crouch (1978) or Robison (1986).

[227] Argued by Sato (1993).

from Aceh; and Sudwikatmono, a cousin of Suharto[228], also joined him[229]. These four, later complemented with the sons of Liem and Djuhar, are often called the Liem Investors or also the Gang of Four. The Liem Investors kept close relationships 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[230]. 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'[231].

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[232]. Liem's textile business, called PT Tarumatex, also reportedly received an order to supply military uniforms[233]. Another example is the Yayasan Harapan Kita, headed by Suharto's wife, which was associated with Liem in his company Bogasari (flour milling)[234].

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[228] In fact Sudwikatmono was almost a step-brother of Suharto as the latter had spent part of his formative years in Sudwikatmono's family.
[229] 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.
[230] These activities were very substantial. For example Pertamina, the oil company, was under direct army control and in fact run as a profit center 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 establishing 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).
[231] Elson, 2001, p. 192.
[232] 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.
[233] See Elson (2001).
[234] See Crouch (1978).

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[235]. The benefits of this milling arrangement for the Salim Group must have been substantial and the arrangement lasted for decades. A World Bank report of 1987 said that 'the profit margin of the flour millers was 25 percent, which is described as 'high by international standards' and "difficult to justify"'[236]. 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[237]. 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[238]. 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 to select the right partners and the right 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

[235] See Robison (1986).
[236] According to Bresnan (1993, p. 127).
[237] See Hofman et al. (2004).
[238] According to Robison (1986) and Sato (1993). The annual revenues from P.T. Mega and P.T. Waringin Kencana grew to an annual average of USD 1.2 million between 1971 and 1980 (Sato, 1993).

> 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 1971-1972, cement in 1974 and automotive industries in 1975[239]. In all 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[240]. Overseas partners, mainly Japanese, helped the development of the Liem Group by providing technology and knowledge[241].

In 1972, Anthony Salim returned from his education in the UK and joined the business. While the Salim Group grew quickly several domestic Chinese

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[239] 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 leading Salim managers was that sometimes companies were 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.

[240] 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 5 days after application.

[241] 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).

partners and two of Suharto's children also joined the group in the early 1970s[242]:

> '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'[243].
>
> '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)[244]
>
> 'I met Mochtar [Riady] when I happened to be in the same airplane, 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)[245]

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 January 15, 1974, in an incident that became known as the *Malari* riots[246]. This incident 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[247].

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242 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 children of Suharto 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.
243 See CISI Rama Utama (1989, p. 400).
244 Quoted in Tempo (1984). Author's translation.
245 Quoted in Tempo (1984). Author's translation.
246 The Malari riots occurred at the occasion of the visit of Japanese Prime Minister Tanaka in January 1974.
247 See Bresnan (1993).

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 cooperation 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 is known by then - rapidly grows through diversification as well as normal business growth.

4.6 Building Substance

From 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[248]. 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[249].

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[250]. 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 set up in 1983 and started production of alkyl benzene (ingredient for manufacturing of detergent) in 1985. Its entry into the steel industry was another example of close cooperation with the Suharto regime. The idea to build a steel industry came from the government and Liem was “encouraged” to put up 40% of the costs of the

[248] See Sato (1994).
[249] See Hofman et al. (2004).
[250] According to Anthony Salim in an interview, Robison (1986) and Sato (1993).

steel plant[251]. 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 USD 800 million it is easier to invest in other factories that make profit more quickly. But this is a special task'. (Anthony Salim)[252]

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[253]. 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.

Apart from 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 in line with other sources, which indicate that the group started to be active in virtually all sectors of the economy, not only in the 1970s but also in the 1980s. One

[251] See for example the Economist (1990).
[252] Both quotes stem from an interview with Tempo (1984). Author's translation.
[253] According to Bresnan (1993, p.250) 'the import monopolies collected a commission of USD 20 per ton and a "handling fee" of 2.5% of the value'. In 1984 and 1985 Indonesia imported more than USD 400 million in cold-rolled steel.

author even labels the period from 1981-1985 conglomerate diversification into unrelated business[254].

In the early 1980s the Liem Groep consisted of 54 companies in six fields: trading, automobile, manufacturing, property & construction, finance and timber, logging & miscellaneous (Table 4.1).

Table 4.1 Salim Group Companies in the early 1980s according to Robison

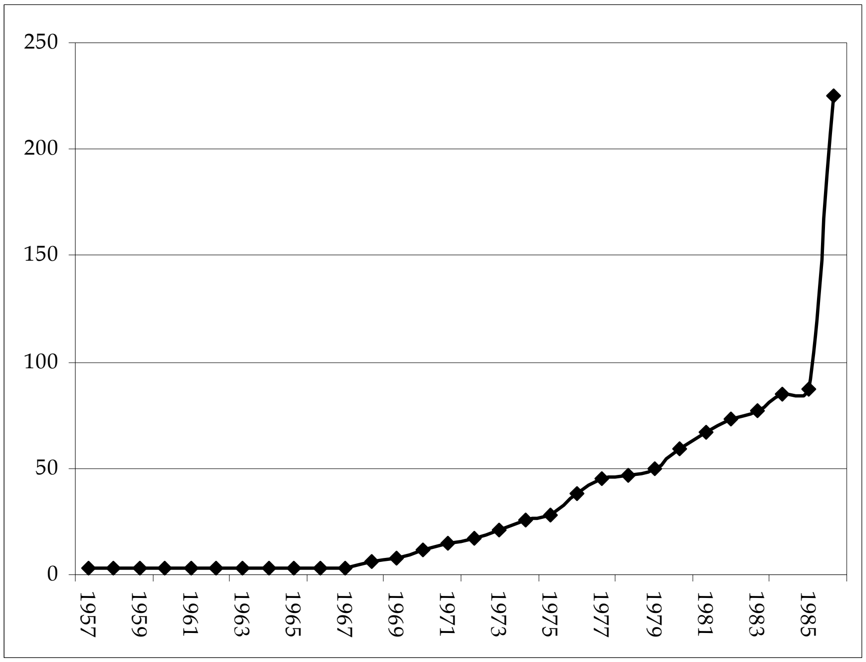
Automobile P.T. National Motors (Hino, Mazda sole agents) P.T. Unicor Prima (Hino & Mazda assemblers) P.T. Indo Mobile Utama (Suzuki sole agent & assemblers) P.T. Central Sole Agency (Volvo) P.T. Salim Jaya (Volvo assemblers) P.T. Harapan Mobil Nusantara (Ford distributers) P.T. Indohero (Suzuki motorcycle assemblers) **Property & Contruction** P.T. Metropolitan Kencana P.T. Wisma Metropolitan P.T. Metropolitan Devt. P.T. Jakarta Land P.T. Green Land P.T. Jaya Bali P.T. Jaya Mandarin Agung P.T. Agung Utama P.T. Perwick Agung P.T. Asia Nusantara P.T. Kabele Asia Nusantara P.T. Central Sari Int. Builders P.T. Nugraha Kencana Jaya P.T. Cahaya Tugu Kencana P.T. Central Salim Builders 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)	**Manufacture** P.T. Multiatex (textiles) P.T. Indah Kencana (nails) P.T. Indara Mas (bicycle tires) Rubber Refineries P.T. Tarumatex (textiles) P.T. Pangan Sari Utama (food processing) 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 **Finance** Bank Windu Kencana Bank Central Asia P.T. Multifinance Corporation Central Antar Jasa Metropolitan Leasing P.T. Asuransi Central Asia P.T. Asswansi Java Central Asia Raya **Trade** P.T. Waringin P.T. Waringin Kencana P.T. Permanent P.T. Mega P.T. Arimono P.T. Hanurata

Source: Robison (1986, p. 298-300)[255]

[254] See Sato (1993, p. 413).
[255] Asswansi Java Central Asia Raya should probably be Asuransi Jiwa Central Asia Raya, a company mentioned in other sources such as Soetriyono (1989).

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 4.2)[256]. A CISI report in 1989 recorded 350 separate Liem-affiliated companies (Annex 5). Although known as 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.

Figure 4.2 Number of Salim Group companies according to Sato



Source: Sato (1993, 1994)

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.

> '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)

[256] See Sato (1993. p 412-413).

'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)[257]

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 attractive government orders[258], 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 is owned by several Suharto-related foundations, experienced financial difficulties, Liem injected USD 200 million in 1990[259].

After the oil boom ended, in the early 1980s, the Indonesian economy witnessed a drawback, and a set of new policies were introduced, mainly aiming at the liberalisation of the economy. In that difficult period, the rupiah was devalued several times, and companies having borrowed abroad suffered during this crisis. P.T. Indocement Tunggal Prakarsa (a Salim company) was rescued by the government, which bought up 35% of the shares for USD 325 million in 1985[260]. Despite this, by 1985 the Salim Group emerged as the largest conglomerate in Indonesia, with annual group sales estimated to be over 900 million USD[261], and 225 separate companies affiliated with the group in 1986[262]. Liem's business success was attributed to

[257] See Tempo (1984). Author's translation.
[258] Interview with an executive of Astra, a competitor of Indomobil.
[259] 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 discrete manner, and not well published. Liem also helped pay for the gambling debts of Suharto's eldest son, according to some unconfirmed reports.
[260] See for example Dick (1985).
[261] Sato (1994) estimates the turnover at over 1 trillion rupiah, which is equivalent to 900 million USD at that time with an average annual rupiah rate of 1111 in 1985.
[262] Soetriyono (1989) lists 192 companies in: trade; finance, construction/real estate; automotive; metal; food; textile; chemical; forestry; cement; pharmaceutical; electronics; glass; plastic; mining, survey; holding companies, and others.

his proximity to the regime, but the Salim Group was apparently also "good at what it did"[263].

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.

4.7 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'[264]. In that year, several other companies with similar names were set up and the First Pacific group (listed on the Hong Kong Stock Exchange)

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[263] Elson, 2001, p. 250.
[264] See Wilson and Williamson (1992, p.2).

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.

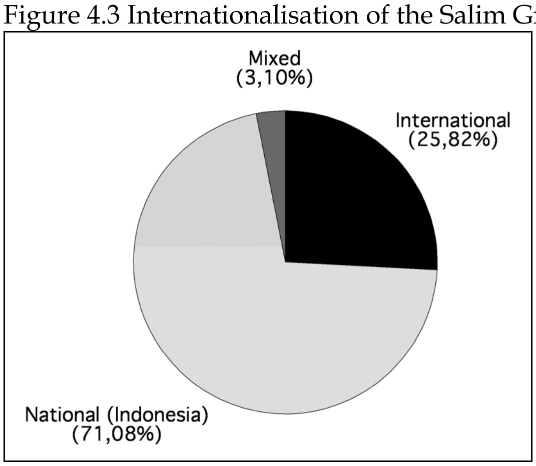
In this period Liem also started investing in Fuqing, his home town, together with Djuhar Sutanto. With a group called Yuan Hong they invested in flour milling, a nearby port, and an industrial park. According to Djuhar Sutanto:

> '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)[265]

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 25-30% of the assets were now outside Indonesia and around 70-75% inside whereas prior to the mid 1980s most assets were located in Indonesia (Figure 4.3).

Figure 4.3 Internationalisation of the Salim Group



Source: Salim Group Brochure, 1995-1996

[265] According to the South China Morning Post (1997).

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) but largely stuck to their domestic business model. Perhaps this can be captured in 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)[266]

As a result of the deregulation packages from 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[267]. The take-off 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[268].

> '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 (..)'[269].

Other Indonesian Liem companies followed Unggul Indah (1989); Indofood (1994); Darya-Varia (1994)[270]; and Indomobil (1997)[271]. With the growth of

[266] Excerpt from Tempo (1984). Author's translation. Liem mentioned that this motto is what he wanted to pass on to his children.
[267] 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).
[268] The result of the listing was that Indocement started to make profits again. .
[269] According to Mackie and Sjahrir (1989, p. 23).
[270] 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 by First Pacific after the Asian Crisis.
[271] Indomobil was listed on the stock exchange by a so-called "backdoor listing". The Salim Group merged Indomobil with its already listed PT Indomulti Inti Industri; renamed it and sold the original Indomulti assets back to itself. (Jakarta Post, 1997b).

the region, and the maturing of the capital markets, the Salim Group was now able to tap international capital from banks and investors.

4.8 Summary & 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 them 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. 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 4.2).

Table 4.2 Summary

Period	Institutional Environment	Strategic Choices
1938-1945 Genesis	- Chinese enjoyed strong position in trading - business context for private business strictly regulated - opportunities in smuggling/trading	- small scale trading of various products - close cooperation with family members
1945-1957 Army relations	- difficult business environment - demand for basic products - important role of the army - start of a national economy.	- initial small-scale diversification - manufacturing of basic products and banking. - supplying goods to the army.
1957-1965 Diversification	- nationalistic political environment - slow economic growth - rising power of the army in business.	- trade and manufacturing of basic products - further diversification and expansion
1966-1972 Capitalising on Suharto's New Order	- 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	- linking up with Suharto to develop economy - evolving conglomerate as new business opportunities arise, e.g. import substitution industries
1972-1980 Institutionalising the business	- flourishing economy - industrialisation - business opportunities exist, especially when linked to Suharto or army	- government connected business - supplemented with international businesses - design the conglomerate: institutionalize & professionalize
1981-1993 Institutionalising the business	- oil crisis and currency depreciation - import substitution efforts halted - export promotion policy -reduced cronyism	- build international businesses - expand local businesses - work with government in order to resolve losses in various industries

Chapter 5: The Midas Touch

'In the 1990s, it was as if every business you touched turned into gold'
Anthony Salim,
CEO & President, Salim Group

5.1 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 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 from 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; coordination and control; and leadership style of the Salim Group.

This chapter starts with a description of the business context in the mid-nineties, 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 cooperation with a variety of partners, thus creating a network of business 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.

5.2 Growing with Asia

In the period from 1994 until mid-1997 most Asian economies, including Indonesia, experienced strong growth rates[272]. 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[273].

FDI was USD 2.6 billion in 1994/1995, but after the regulatory changes the net realised foreign investment rose to USD 5.4 billion in 1995/1996 and USD 6.5 billion in 1996/1997[274]. 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[275]. 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[276].

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[277]. Confidence was also reflected

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[272] 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 January 6, 2005].
[273] See Thee (2002).
[274] According to Feridhanusetyawan (1997).
[275] According to Lindblad (1997). Japan also topped the list of foreign investors with 23% in the period 1967-1996.
[276] See Pomerleano (1998).
[277] See World Bank (1993).

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'[278].

With the growing optimism about the future of Asia, many ethnic Chinese also started to feel more confident about their position, and some opened up for interviews. In 1996 the Salim Group published a brochure with an overview of the group's activities (see Annex 7). As ethnic Chinese firms in the region had started to list their companies on stock exchanges, more information was available on the size of ethnic Chinese business. 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[279].

Despite the high economic growth in Indonesia experts were increasingly worried about the rising corruption and preferential treatment of 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[280]. 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[281]. 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

[278] See the First Pacific Annual Report 1996, p.9

[279] 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. This research body was subject of a thorough analysis later in Chapter 2.

[280] 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.

[281] See Feridhanusetyawan (1997).

car" project by one of Suharto's children, which received various tax exemptions[282].

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'[283]. 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'[284] .

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 rich and poor. Among the foundations board members were two of Suharto's children, Anthony Salim and Sudwikatmono, another member of the Liem investors[285]. 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

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[282] 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)

[283] See Manning and Jayasuriya (1997, p. 17).

[284] According to the Australian Financial Review (1995b).

[285] 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).

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.

5.3 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%[286]. Especially the southeast 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''[287].

As a consequence most people like Liem kept a low profile when it came to their business ties with China[288]. 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

[286] See for example Yeung (2000).
[287] See Financial Times (1995a).
[288] 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.

Bank[289]. 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, who 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'[290].

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 Fuzhous (Fuzhou being the capital of Fujian Province), together with Robert Kuok[291]. 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. From 1994-1997 the Salim Group made several new investments in Southeast China.

5.4 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 privately held, it is not easy to estimate the size of the group, although the Salim Group was the

[289] 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).
[290] According to the Australian Financial Review (1995a).
[291] See the Weekend Australian (1995).

largest conglomerate in Indonesia, and according one source in all of Southeast Asia[292].

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-5 taxpayer positions[293]. Having been Indonesia's largest tax-payer for a long time, Liem also consistently appeared on the list of wealthiest people in the world published by Forbes. Liem already ranked no. 48 in 1988 and was no. 68 in 1997, with an estimated net worth of respectively USD 2 and USD 4 billion[294]. 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[295].

After more than three decades of expansion and diversification the Salim Group had 280,000 employees and was organised in 12 "divisions" in 1995[296]:

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[297];

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[292] See Sato (1993).

[293] 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).

[294] For example Soetriyono (1989) or Lever-Tracey (2002).

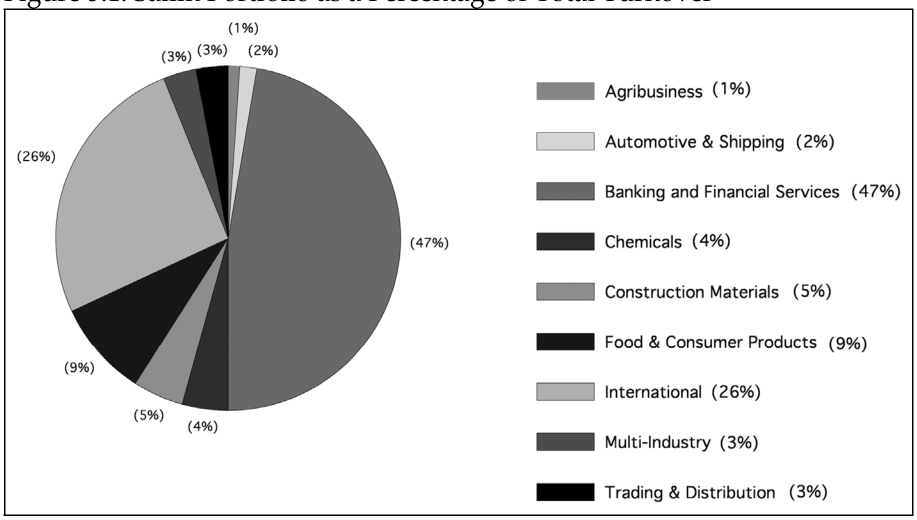
[295] In 1996 Liem received a doctorate honoris causa from the Wharton School, University of Pennsylvania, according to the 1997 Indomobil Annual Report. This was apparently connected with the 1.6 million USD gift by Anthony Salim to the Wharton School for a professorship named after his father and First Pacific Company. (Wharton Alumni Magazine, 1996).

[296] According to Sato (2004) and a Salim Group brochure. The term division may suggest that the group was established under one 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.

10. Natural Resources;
11. Property Development & Leisure Industry;
12. Trading & Distribution.

Figure 5.1 gives an indication of the importance of the Salim Group activities by division. According to the turnover figures in the 1996 Salim brochure[298] 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 owns the majority of QAF, but owns stakes in other companies as well); and some investments in privately held companies in Fujian, China and some other regions (See for more details Annex 7).

Figure 5.1: 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.

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: USD 9.8 billion in 1992; USD 8.6 billion in 1993; and USD 22.8

[297] This is a term used by the Salim Group for "other manufacturing activities". It includes diverse activities such as sport shoe manufacturing, textiles, and galvanised iron sheets.
[298] To my best knowledge the brochure published in 1996 is the latest promotional material on the Salim Group as a whole.

billion in 1996[299]. The latter figure represents about 4% of Indonesian Gross Domestic Product (GDP)[300].

According to various newspapers, notably the Financial Times and the Australian[301], the turnover of the Salim Group ranged from 9-11 billion USD between 1993 and 1995. The Salim Group, in its brochure, puts its turnover for 1995 at over 20 billion USD. 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[302]. 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 5.1 shows the turnover figures for the main listed Salim companies while a more complete overview is available in Annex 8.

Table 5.1 Turnover of Main Public Salim Group companies (USD Million)

	Indofood	Indocement	First Pacific	QAF	Indomobil	UIC
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.

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

5.5 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 his two sons

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299 According to Sato (1993; 1994; 2003). Calculated in USD using the historic annual average rupiah rates.

300 The GDP in 1996 at current market prices was 532 trillion rupiah. (Asian Development Bank) www.adb.org/statistics. [accessed January 6, 2005]

301 These turnover figures were mentioned in: Financial Times, 1994; Australian Financial Review, 1994; Australian, 1995b; Australian, 1996a; Australian, 1996b. Other newspapers reported similar figures.

302 There is a rather large discrepancy between the 1995 figures mentioned by newspapers and those mentioned by the Salim Group (billion 11 vs 20), but a plausible explanation could be that the figures mentioned in newspapers lag behind those published by the Salim Group itself.

(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)[303]

> '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 5.2). 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 publicly listed companies, not of the private operating units or private holding companies. Interview results suggest that the Salim Group sometimes purposefully maintains the confusion as to who is the real owner. 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 stage the Salim Group often became the leading partner in a domestic venture by acquiring a company that was not very successful. Examples of this are Indomobil and part of the cement business.

> '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)[304]

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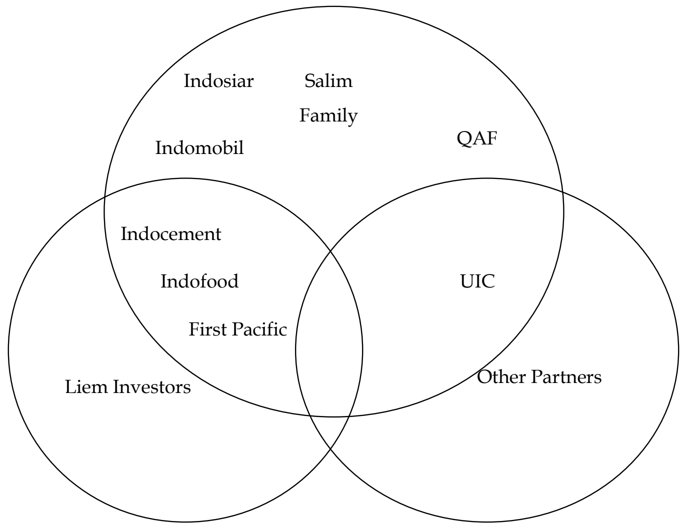
[303] See Tempo (1984). Author's translation.
[304] Quoted in Tempo (1984). Author's translation.

Figure 5.2 The Salim Group Ownership and Structure

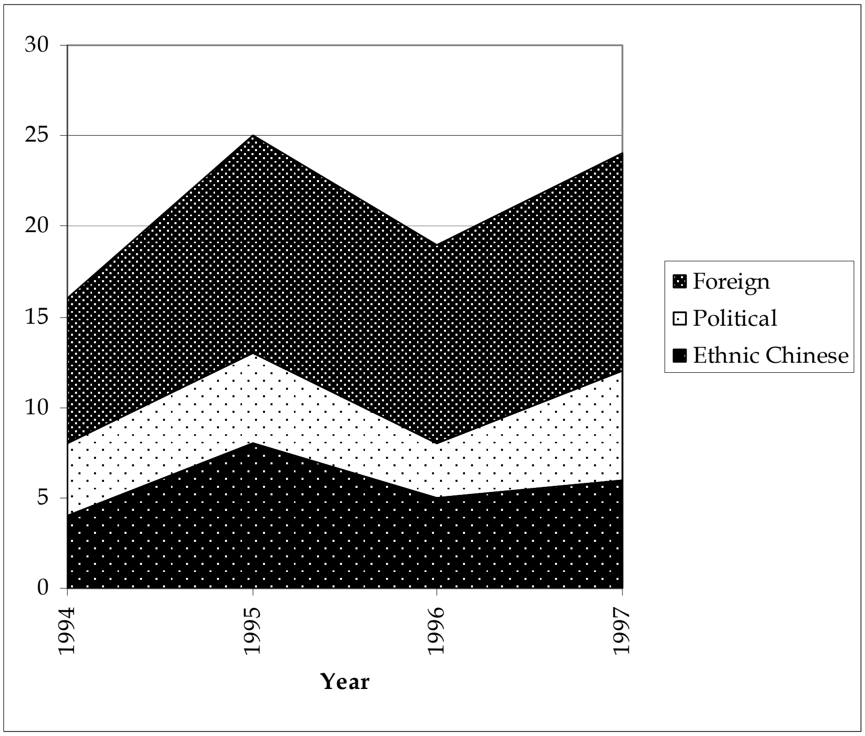


In the period 1994-1997 a large number of new partnerships were announced. These partnerships support the notion that the Salim Group is seeking to diversify even further, both in the nature of its activities as in their geographical locations. The new partnerships show a great variety of new activities 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 5.3). Generally speaking Western and Japanese partners are common in industries were outside technology was required. Indocement, Indofood, Indomobil were all set up in such a way.

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)

Figure 5.3 New Partnerships of the Salim Group 1994-1997



Source: coding results

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 manager 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 the whole top-management of the company 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 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.

5.6 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 1994-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[305].

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.

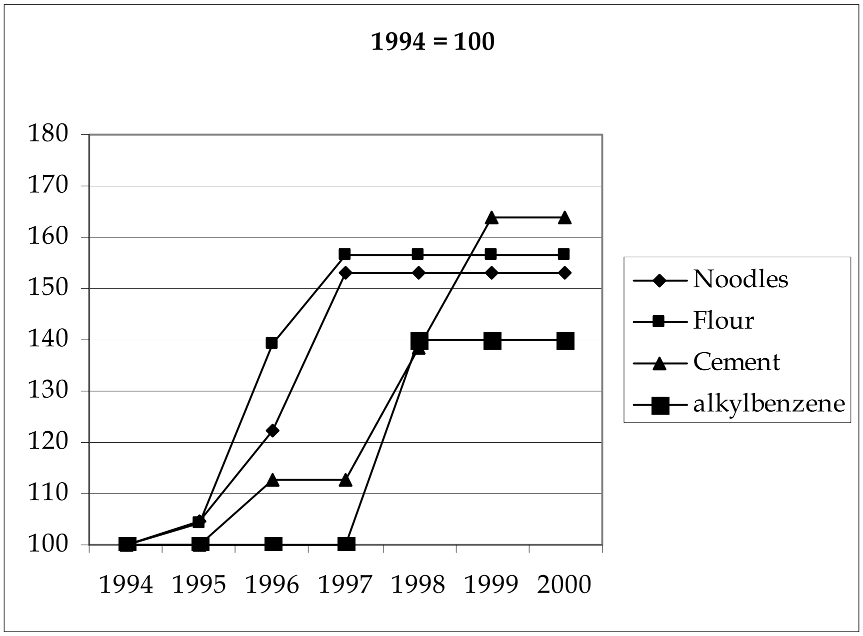
> 'Previously they were in every business. They usually target companies with mass production, no high-tech and also little branded goods. Take for example Indosiar, a TV channel that is not investing in high-tech, more on the creation of programmes for the masses that attract advertisers. They need cash for 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[306]. 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% of the Indonesian population lives. UIC, the partly Salim-owned alkyl-benzene producer, held a monopoly. All these businesses achieved substantial production capacity growth (Figure 5.4).

[305] 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.

[306] Although the listed companies were not heavily engaged in exporting, this does not apply for the private companies. Some of those were mainly producing for exports, such as shoes, flower, meat, and shrimps.

Figure 5.4 Production Capacity Growth



Sources: Annual reports of Indofood, Indocement, UIC, various years. The cement production expansion started in 1996 came on stream in 1999, for this reason the figures until 2000 are displayed.

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 3 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 the products exported[307]. According to the 1996 annual report of Indofood 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, even declined.

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;

[307] See for example the Australian (1995a).

- Planned production of 700,000 tons refined sugar annually;
- Intention to cultivate 200,000 hectares of rice
- Production increase from 96,000 tons 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. Listed First Pacific Company in Hong Kong can itself be described as a conglomerate with telecom, property, marketing & distribution and banking interests. It operated as an investment holding and several of the companies under its umbrella were themselves listed on various stock exchanges[308]. 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.

5.7 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

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[308] 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. (Hongkong) 51%; PDCP Development Bank Inc. (Philippines) 21.8%.

companies were themselves subdivided into groups, such as the Indomobil group, the Oleochemicals group, the Mosquito Coils group and so on[309]. 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 automotive: 'Every partner with whom we have a JV needs a new holding company, because you cannot mix partners up.'

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 towards Salim owned firm C. Although information on private companies is limited, the information available on the listed companies provides a picture of the inter-group 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:

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[309] 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).

> '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 about 50-60% 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 Tunggal 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 its 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)[310].

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[311]. 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[312].

Yet another example of an internal acquisition was UIC, the partly-Salim owned chemicals company, which bought Salim Oleochemicals Singapore in May 1997[313]. 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[314]. 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

[310] 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.
[311] 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)
[312] According to the First Pacific Annual Report, 1996.
[313] See Asia Pulse (1997).
[314] See for example the Chemicals Business Newsbase (1997).

> bought because the prices for Indonesian products are set by large traders/distributors. If you buy Hagemeyer you can control the price'. (Salim 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 overpay 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.

5.8 Intra-group Synergy

Aside from vertical integration, there were also several indications of coordination between the different Salim Group companies in order to achieve synergy. Interviews with Salim Group managers clearly show that major activities are coordinated 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 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 second 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 companies needed cars, they would go to Indomobil and Indorent, the automotive parts of the group. When they needed construction, 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 5.2). Indofood for example, sold 60% of their 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 his company is losing touch with the "real" market because UIC sells mostly to related parties[315].

Table 5.2 Related Party Sales as a Percentage of Total Sales

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

Source: Annual Reports

The group companies used BCA (Bank Central Asia) as their main bank, making this financial institution perhaps the most important integrating factor (Table 5.3). 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 USD 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 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 50-80%.

Table 5.3 BCA Short Term Loans (% of Total Short Term Loans)

Short Term Loans with BCA	**1994**	**1995**	**1996**	**1997**
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 USD.

[315] 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.

BCA was but one example of 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 the 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)

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 for 1994-1997 this strategy was not only diversification, growth and vertical integration (as demonstrated in the previous sections), but also one of achieving synergy, of intra-group coordination. The horizontal integration can be witnessed in high levels of related-party transactions (sales and purchases) and shared professional services such as financing, leasing, insurance and management consulting for group companies.

5.9 Coordination 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 coordination. This overall strategy was carried out under leadership of Anthony Salim by means of a number of control and coordination 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 in all the companies. In other words, their cash flow rights were lower than their control rights. This ownership pattern was common for various companies[316]. 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 managers had to report to Liem Sioe Liong in Singapore, but in the 1990s Anthony Salim gradually took over the leadership. 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 & 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

[316] This pyramid structure is also evident in the companies transferred to Holdiko. Virtually all the companies handed over to the Indonesian government had one or more holding companies. (Holdiko 1999, 2001).

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 is there is not a board as such. But certainly there is an organisation in the holding companies'. (Salim Executive)

What seemed to be the case was that the Salim family with a number of staff took 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 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 coordination tasks for the group[317]. According to interviews with top-managers Inti Salim Corpora recruited them and paid their salaries. It organised trainings 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 coordination activities within this group, which, according to one of the managers, comprised of over 20 people and had meetings at least monthly. They coordinated 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 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)

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

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[317] PT Salim Inti Corpora was established in 1983 and had a registered capital of just 100 million rupiah, the owners being Anthony Salim and Andree Halim with 50% each (Berita Negara, 1998).

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 a manager if you borrowed from other group company you had to pay, so using the internal capital market was possible but 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 coordination mechanisms was implemented which ensured the group spirit and coordination 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.

5.10 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 positions on the various corporate boards. Liem himself also remained active in the group on various boards. 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 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[318]). 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 9 gives an overview of Salim Group executives). Table 5.4 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).

Aside from Liem and his two sons, the only other family member that occupied a strategically important position is Franciscus Welirang, the brother-in-law of Anthony Salim. He held an important position in Indofood (overseeing flour milling) and held board positions in other Salim companies as well. However, aside from these four, there is no evidence that more family members are actively involved in managing the Salim Group. One other person that stands out is Benny Santoso, who is working very closely with Anthony Salim. In the period from 1994 to 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 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.

[318] 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.

Table 5.4 Liem Investors and Board Memberships 1994-1997

First Pacific

Liem Investors	*1994*	*1995*	*1996*	*1997*
Soedono Salim	x	x	x	x
Anthony Salim		x	x	x
Franciscus Welirang				
Sudwikatmono	x	x	x	x
Ibrahim Risjad		x	x	x
Sutanto Djuhar		x	x	x
Tedy Djuhar		x	x	x

Indofood

Liem Investors	*1994*	*1995*	*1996*	*1997*
Soedono Salim	x	x	x	x
Anthony Salim	x	x	x	x
Franciscus Welirang		x	x	x
Sudwikatmono	x	x	x	x
Ibrahim Risjad	x	x	x	x
Herman Djuhar				x
Tedy Djuhar	x	x	x	x

Indocement

Liem Investors	*1994*	*1995*	*1996*	*1997*
Soedono Salim	x	x	x	x
Anthony Salim	x	x	x	x
Andree Halim	x	x	x	x
Franciscus Welirang	x	x	x	x
Sudwikatmono	x	x	x	x
Ibrahim Risjad	x	x	x	x
Sutanto Djuhar	x	x	x	x
Johny Djuhar	x	x	x	x
Tedy Djuhar	x	x	x	x

UIC

Liem Investors	*1994*	*1995*	*1996*	*1997*
Soedono Salim				
Anthony Salim	x	x	x	x
Andree Halim	x	x	x	x
Franciscus Welirang				
Sudwikatmono				
Ibrahim Risjad				
Sutanto Djuhar				
Johny Djuhar				
Tedy Djuhar				

Indomobil

Liem Investors	*1994**	*1995**	*1996**	*1997*
Soedono Salim				x
Anthony Salim				x
Andree Halim				x
Franciscus Welirang				x
Sudwikatmono				x
Ibrahim Risjad				
Sutanto Djuhar				
Johny Djuhar				
Tedy Djuhar				

** no annual report available*

BCA

Liem Investors	*1994*	*1995*	*1996*	*1997**
Soedono Salim	x	x	x	
Anthony Salim	x	x	x	
Andree Halim	x	x	x	
Franciscus Welirang				
Sudwikatmono				
Ibrahim Risjad				
Sutanto Djuhar				
Johny Djuhar				
Tedy Djuhar				

** no annual report available*

Source: Salim Group Board Membership Database compiled by the author.

5.11 Summary and Conclusion

The period from 1994 –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 possibly around 40% per year in this period, substantially higher than the economic growth in the region. Most 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 had started in the mid-1980s, intensified and now contributed more than a quarter of total sales. The Salim Group became less dependent on Indonesia, where anti-Chinese sentiments and criticism towards Liem personally were always present under 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 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 intervention. Further coordination 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 manager usually do the day-to-day management. The Salim Group culture is characterised as professional, hard-working and aggressive in its business pursuits (Table 5.5).

Table 5.5 Summary

Period	Institutional Environment	Strategic Choices
1994-1997 rapid growth	- continuation of liberal economic policies - protection of selected businessmen - activity in connection with Suharto as his succession is discussed - more crony capitalism - FDI inflow	- continue internationalisation - restructuring & vertical integration - hiring professional managers - small businesses with Suharto's children - fast growth of existing & new businesses, increasingly with foreign partners

Chapter 6: Fire-Fighting

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

6.1 Introduction

The previous chapter described the growth of the Salim Group in the period 1994-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 coordination 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 that is covered in this chapter the business context is suddenly reversed. The economy contracted, the rupiah devaluated and many companies in Indonesia became insolvent[319]. 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.

6.2 Unprecedented Problems

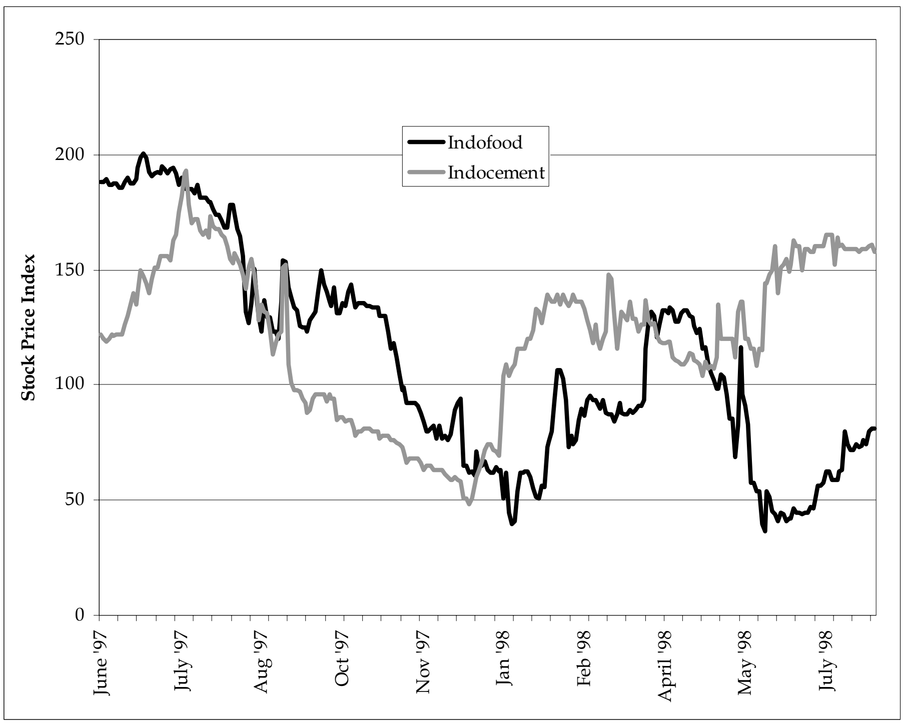
In May 1997 the Thai currency started to devaluate rapidly, causing a panic among investors in the Asian region. In July 1997, the crisis had started to

[319] 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 a negative equity (Zhuang et al., 2001).

spread to other countries, including Indonesia. The Indonesian government initially assured local conglomerates that the Indonesian currency would not be devaluated. This proved not to be sustainable. 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 in a rapid pace. The rupiah, which stood at 2,450 to the dollar by the end of June 1997, rapidly lost value until it reached a low of 15,000 in June 1998. The fall of the rupiah caused a ballooning corporate debt since companies had most loans denominated in dollars whereas assets and income were measured in rupiah.

The results of the crisis were that in 1998 - the worst crisis year - half of the Indonesian companies were technically insolvent and the economy contracted by over 13%[320]. The stock exchange fell sharply to a third of its previous level, particularly in the last quarter of 1997 and the Salim company stock prices fell as well (see Figure 6.1).

Figure 6.1 Indexed Stock Prices of Indofood and Indocement

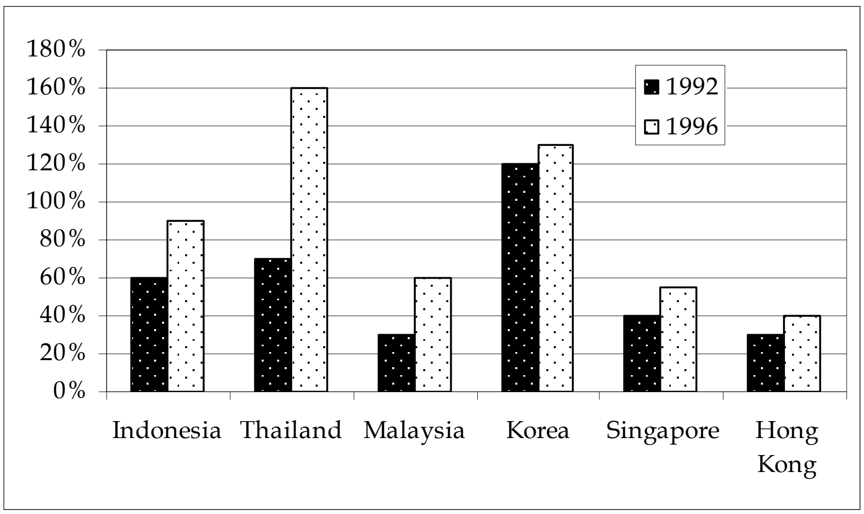


Source: Jakarta Stock Exchange

[320] See Zhuang et al. (2001).

The vulnerability of the corporate sector in the region was clearly demonstrated in a paper by Pomerleano[321], who analysed the health of the corporate sector in various countries prior the crisis, and concluded that Thailand, Korea and Indonesia were the most vulnerable (Figure 6.2). During a time when capital poured into Southeast Asia, many businesses, among them the Salim Group, had started to borrow heavily from foreign banks, which offered substantially lower interest rates than local banks. In addition 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 USD 34 billion in 1996 to USD 60 billion early 1998[322].

Figure 6.2 Corporate Leverage in Selected Countries



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

Thee, an Indonesian economist, mentioned comparable figures: the total foreign debt of Indonesia was USD 138 billion, of which USD64.5 billion was private debt[323]. Even worse, many of these foreign currency loans were short-term. Indofood, for example, saw its proportion of USD 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 USD loans as a percentage of their total loans (see Table 6.1).

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[321] See Pomerleano (1998).
[322] See IMF (2004).
[323] Thee, 2003, p. 189.

Indofood admitted it had hedged only 15% of its debt, and was forced to issue a profit warning in October 1997[324].

Table 6.1 US Dollar Loans for Major Salim Companies (% of total)

USD Loans	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

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 had to look into the matter. Anthony Salim was one of the members. The committee concluded in January 1998 that 228 Indonesian companies had problems paying their foreign debts[325]. 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 from ATM's and changing 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 number and importance of private banks. However, financial institutions were generally not properly monitored, and many banks were stuck with increasing amounts of Non Performing Loans[326] and withdrawals. It was a phenomenal blow to an already fragile banking system. The government sought 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 demands by the IMF. As a consequence of the crisis most 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)[327]. Many

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[324] Reported in the Financial Times (1997b).

[325] See van Dijk (2002).

[326] 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).

[327] An investigation by the Supreme Audit Agency later revealed irregularities in the liquidity credits provided by Bank Indonesia to several banks (totalling over USD 20 billion). BCA was one of the largest recipients of the liquidity support. It was suggested that bank owners had used the capital injections to speculate on foreign exchange rather

conglomerates had also used their banks for intra-group lending, something officially not allowed but a widespread practice in Indonesia[328]. When the conglomerate companies started to experience problems, their banks naturally also experienced those in the form of bad loans[329].

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 became clear that the crisis was more serious than expected and a new agreement with IMF was announced in January 1998. The package of policies that was agreed with the IMF included lowering tariffs on various products, including those that had been beneficial to Salim companies such as wheat and chemicals import tariffs as well as lowering the protection rate of the automotive sector and abolishing the restrictive distribution arrangements for cement. Suharto was apparently reluctant to commit himself to the IMF agreements which meant to abolish privileges of the people around him[330]. The relationships with IMF were strained. While the economy worsened 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 on how the government handled the situation[331]. Despite this Suharto was re-elected in March although his credibility was falling. His new cabinet, which also

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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. End of 1997, much of the management was changed after accusations of corruption (van Dijk, 2002, p. 84)

[328] The legal lending limit for lending to affiliated companies was a maximum of 20% but this was violated by most banks owned by Indonesian conglomerates.

[329] 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.

[330] There were many instances where Suharto backtracked on decisions that hurt his relatives' or friends' business interests. One reason for doubting Suharto's commitment to implement the IMF packages is worth noting here. The closure of 16 banks also included Bank Andromeda, a bank 25% owned by Suharto's son Bambang Trihatmodjo. He was furious and 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 (son of Liem Sioe Liong) after an asset swap took place. Assets and liabilities of Bank Alfa were transferred to the Bank Risjad Salim International (also under the Salim Group) and the assets and liabilities of bank Andromeda were inserted (van Dijk, 2002, p.89). Apparently the Salim Group was again helping out old friends.

[331] See for example Soesastro and Basri (1998) and van Dijk (2002).

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 feared to become a scapegoat for Indonesia's problems. A panic emerged and many people started to hoard food. Daily demonstrations by students against the current regime became the norm. Liem and some other rich Chinese started distributing food parcels to families most affected by the crisis[332].

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 to be owned by Chinese were attacked by rioters while physical violence against them also took place. Indonesia witnessed yet another period of violence against the Chinese minority and, amidst widespread riots the family house of the Salims in Jakarta was set to fire as well as several branches of their BCA bank[333]. This unrest forced Suharto to resign on May 21, 1998 and hand over the reign of the country 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 elections in 1999 President Wahid, nicknamed Gus Dur, took office while the economy stopped contracting, but did not grow 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 with the Chinese-Indonesian business tycoons in order for them to return the money that had fled the country – estimated between USD 10 and 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

[332] See for example Associated Press (1998a).
[333] Rumours circulated that the riots had been organised, particularly those in the vicinity of Liem Sioe Liong's house (van Dijk, 2002).

Salim and to have agreed to return to Jakarta and resume his investments there[334].

Some trials against former power holders started, notably Suharto's son Tommy (who went into hiding but was later convicted and sent to jail) and Bob Hasan (also sent to jail). Several scandals involving corruption and nepotism came to light[335]. Another movement that threatened stability of Indonesia was that several regions now demanded more autonomy. Wahid made national unity a priority and announced a process of decentralisation which made the "cost of doing business" (i.e. corruption) no less, but 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'[336]. Only in 2000 did the economy show 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 an economist: 'owing to its weak financial and economic structures and institutions, Indonesia was not able 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 Korean and Thailand'[337]. The other regional economies also experienced a deepening economic crisis affecting most companies 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 the group than those in Indonesia, which had the extra burden of political crisis. The GDP growth in various Asian countries reveals the depth of the economic crisis and the recovery (see Figure 6.3).

Summarising, 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 their formerly valuable political connections turned against the group. The political crisis and anti-Chinese mob violence posted a direct

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334 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 USD 10 billion.

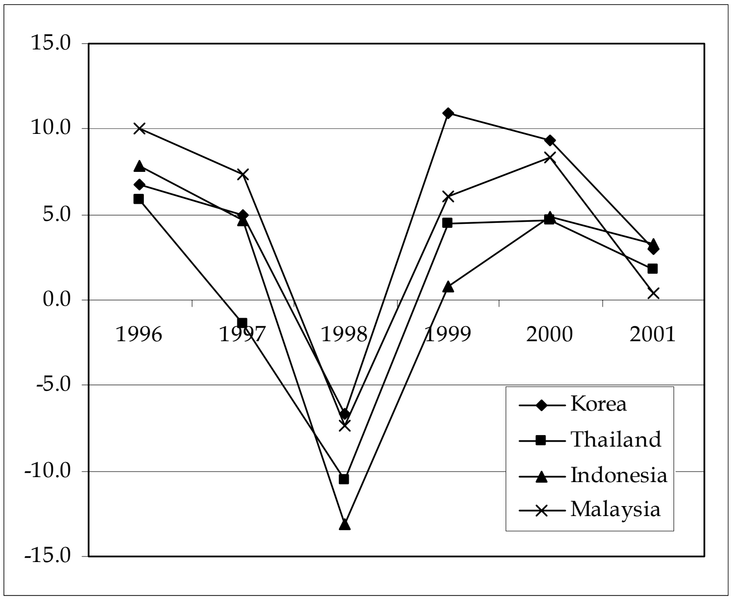
335 These KKN scandals were numerous. The Bank Bali scandal led to the detention of the governor of the central bank. The case of Texmaco, another conglomerate, revealed that Suharto intervened directly to enable this conglomerate to obtain loans, although this was against the prevailing regulations. The Bulog (state logistics agency) scandal provided another case of KKN.

336 McLeod, 2000, p.5.

337 See Thee (2002, p. 186).

physical threat to the Salim family and their assets. The business context in this period can best be characterised as extremely hostile.

Figure 6.3 GDP Growth in selected Asian Countries



Source: ADB statistics

6.3 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[338]. Both deals would eventually not materialise as a result of the unfolding crisis.

[338] Newspapers reported rumours of the Salim Group planning to buy a controlling stake of San Miguel for 1.6 billion USD. (Australian, 1997) Manuel Pangilinan, CEO of First Pacific, reported that “we bought 2% of the company in 1997 for approximately USD 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 84 million USD (Jakarta Post, 1997c) and also involved CSFB as a partner, but was cancelled on April 6, 1998 because of ‘recent developments’ i.e. the unfolding crisis (The Jakarta Post, 1998a).

Next to its acquisition plans, however, the Salim Group also quickly acted 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 institutionalize our business. Market based put into our consideration. Whatever change of politics, it's going to 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. What we did the best way to do it at that time - three things: distance ourselves from government contracts, at that time is a fruitful business – 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 the group took 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[339]. 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. As the government owned 26% of Indocement (and had also received Indofood shares) it had a say in the deal. The attempt to move Indofood offshore received explicit approval by the government, voiced by various ministers[340]. 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 indeed rather difficult task of explaining this move in terms of synergy and attracting more capital in the lower risk environment

[339] The turnover of QAF in 1997 was only USD 224 million, whereas Indofood reported a turnover of USD 1.7 billion in the same year according to annual reports of both companies.
[340] See for example Jakarta Post (1997a).

of Singapore[341]. Just how much synergy you can achieve when you are a giant bought by a little dwarf remained in the open. 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 the Salim engages in capital flight it indicates a shift.' There were indications that the Salims also planned a similar move to bring Indocement under control of a foreign company[342].

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: negotiations to pay off or restructure mounting dollar denominated debts. An example 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 suffered from 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 80-100 million and he considered this too much. Then crisis came and it turned out he made a mistake. He has taken a lot of credit at the BCA bank in order to save his companies. This was of course against the banking regulations'. (Person close to the Group)
>
> 'The debts (of the Salim Group) were accumulated because they overvalued 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 & 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 creditors of the private

[341] E.g. Bisnis Indonesia (1997); Sinar (1997); Forum (1997).
[342] 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).

sector, was quoted saying 'It's as if you're sitting on the Titanic. If Indonesia sinks, all the corporations will sink'[343]. 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 grown to be the largest bank in the country. Siti Hardijanti Rukmana (Tutut) and Sigit Haryoyudanto, two of Suharto's children, together had a 30% stake in the BCA bank, and with Suharto's position under pressure all kinds of rumours spread in Indonesia. On May 14, newspapers reported the first attacks by mobs on BCA branches. The next day, newspapers reported that angry mobs burnt and looted the house of the Salim family, and many Chinese tried to rush to the airport and board flights to Singapore or elsewhere while Jakarta was on fire. The New York Times reported later:

> '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" '[344].

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[345]. On May 19, after various days of violence, the bank announced that 122 branch offices and 150 ATMs were destroyed[346]. After more days of continued withdrawals the newspapers reported on May 28, 1998 that BCA was placed under state supervision[347]. 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 could not succeed and handed over BCA to the government for recapitalisation[348]. Other sources tell a different story and claim that the Salim had used the bank's money to save other companies:

> 'When there was a rush on their (BCA) bank people did not withdraw 53 trillion. That is a lot of money. Conservatively estimating, maybe 25 trillion. They used the other half to channel it to their corporations'. (Former Minister)

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[343] See Business Week (1998).
[344] New York Times, 1999.
[345] Because of the long queues for withdrawing money BCA became known as Bank Capek Antre (Tired of Queuing Bank) (van Dijk, 2002, p.194).
[346] Jakarta Post, 1998b.
[347] According to a Salim manager, the Salim family handed over the bank on May 20, 1998
[348] Associated Press, 1998b.

Within the hostile environment of riots, political chaos and panic, the top-management of the Salim group withdrew to Singapore for a few weeks to see how things were evolving from a political perspective. The direct attacks on the Salim family, with their family house having been set to fire, made Jakarta too dangerous a place. Although Anthony Salim came back, his father remained in Singapore and did not return to Indonesia after the crisis. As a result of the collapse and nationalisation of the BCA Bank on May 28, 1998 the Salim Group became by far the biggest debtor to the government, owing some USD 5 billion. This amount was composed of the pay-back of capital injections in the BCA bank (3 billion USD) and a fine for violating the inter-group lending limits[349].

As Suharto stepped down, there was suddenly open criticism possible of companies previously close to Suharto. 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 Suez Lyonnaise des Eaux from France – which had clearly benefited from close relationships with the former Suharto regime[350]. The Salims were forced to withdraw from the venture. A Salim property project on the coast in Jakarta was also cancelled.

Most of the already technically insolvent Salim companies experienced further set-backs as the demand for all products in Indonesia dropped. This was particularly true for luxury products, 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 the Salim partners, issued a statement that they were revising their strategy for Indonesia[351]. Other Salim companies in Indonesia were not better off: their main cash cows Indofood and Indocement also reported losses for 1997 (Table 6.2).

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 USD 2 billion by selling Hagemeyer, a Dutch trading company, and a few other companies.

[349] According to Finance Minister Bambang Subianto (Asia Pulse, 1998b).
[350] 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.
[351] Jakarta Post, 1998c.

Table 6.2 Profits of Selected Salim Companies during the Asian Crisis

Profit/Loss (USD 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.

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[352]. 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 USD 749 million (Financial Times, 1998a, 1998b)[353]. When it became clear that QAF could not buy Indofood First Pacific moved to its rescue and in December 1998 First Pacific acquired a controlling stake of Indofood[354].

6.4 Indonesian Bank Restructuring Agency

The government had established the Indonesian Bank Restructuring Agency (IBRA) on January 27, 1998 as a result of agreements made to obtain IMF assistance[355]. IBRA was tasked with overseeing 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-educated staff

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[352] According to the 1997 annual report of First Pacific Company.

[353] 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)

[354] 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 USD 600 million. In subsequent years they built a majority stake in the company which was achieved in 2002.

[355] The Indonesian name was Badan Penyehatan Perbankan Nasional (BPPN).

members and a shiny building. Its employees were mostly from investment banks whereas the chairmen (it was a coming and going of chairmen in the short period IBRA existed) were political figures. IBRA quickly became one of the most powerful institutions in Indonesia as they managed assets worth a third of the Indonesian GDP and most large conglomerates were its 'patients'[356]. 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'[357].

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[358]. 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 USD 5 billion. According to Anthony Salim,

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

The IBRA employees that frequently negotiated with him at that time confirm that he laid his cards on the table - yet he was a tough negotiator. Anthony Salim as well as sources in IBRA confirmed that Anthony Salim 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 cash-cows, 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:

[356] To illustrate IBRA's importance: in May 2000 it managed assets valued at USD 53 billion (IBRA monthly newsletter, June 2000) while Indonesian GDP was around USD 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. In any case several irregularities were revealed at IBRA (van Dijk 2002).
[357] See IBRA (1999).
[358] See for example Asia Pulse (1998a).

> 'Within IBRA Anthony Salim laid down his cards on the table, yet 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 USD 5 billion by transferring stakes in over 100 companies[359]. 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 negotiated with various tycoons at the time, claim that the Salim Group was cooperative and the most professional of all. The administration of its companies was excellent, which was the reason that the transfer took place in such a short period.

> '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 only grown so big 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 the Salim assets in such a short period of time – it was because of the completeness of the information. Apart from the case of the sugar plantation basically the figures provided by Salim were quite accurate'. (IBRA Employee)

In 2000 it appeared that the assets the Salim family (and other conglomerate owners) surrendered were worth much less than the promised value, and Anthony Salim agreed to pledge more assets[360]. Enemies of the group described it as "theft", for example a former minister interviewed for this study:

> 'They transferred companies worth 53 trillion Rupiah. But when these assets are audited again the value is only 20 trillion, so we are

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[359] See for example New York Times (1998).

[360] The total obligations of the Salim Group to IBRA were over 50 trillion rupiah (approximately USD 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.

> talking about theft here. But the Salim Group was one of the most cooperative groups. Others were far worse. Now these Salim assets are with the government, with IBRA. What solution they took was also vague. The loss for the government is huge. If we had a choice it would be better not to have this type of conglomerates any more'.

In July 2002 it was agreed that the Salim Group had to pay IBRA an extra USD 107 million (or 960 billion rupiah) for misrepresenting asset values[361]. These reports as well as the interviews show that the 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 level. 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 has in the meantime, on another level, been working towards the R&D document. Surprisingly the 5 names on the list to obtain this release and discharge document are 2 small debtors; Anthony Salim, Sudwikatmono and Risjad - the 3 owners of the Salim Group. There is political activity at another level. Anthony Salim has connections with the chairman of IBRA and also with ministers etc'.

Much of what has happened is not transparent until this date, but the interview results show an interesting dual image of the Salim Group. From the side of the former ministers interviewed, the Salim Group comes out as immoral, because they try to gain as much as they can and attempt to leave their debts for the government to pay; while the picture at IBRA was that of a very smart and respected businessmen who was "squeezed" by politicians because he was the most cooperative of all.

Following the agreement with the Salim Group, a special company named *PT Holdiko Perkasa* was set up under IBRA to receive, manage and sell the shares and assets in 107 Salim companies on December 14, 1998. Among the transferred shares was a majority stake in 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 held a further 6.6% and the government was also a shareholder in the company with 26% ownership. Therefore, Indocement was in fact now fully controlled by the government. The Salim family kept its control of First Pacific.

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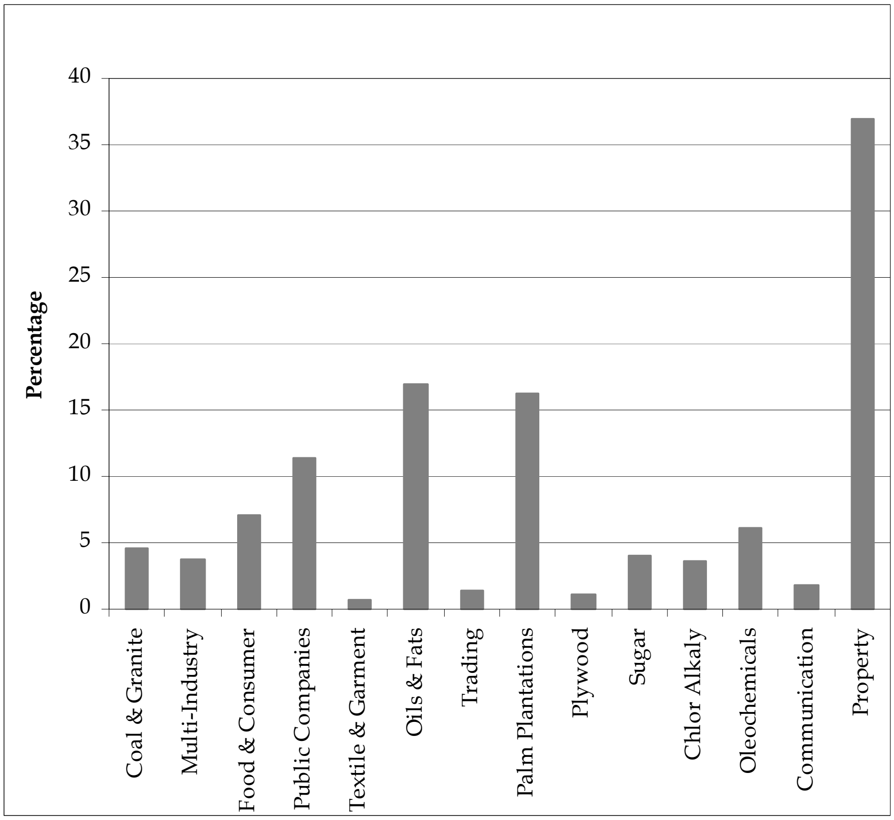
[361] According to statements by Temenggung, then head of IBRA, at a press conference on July 11, 2002 (AFX Asia, 2002).

The remaining 89% of the value came from private companies. These included palm plantations; oils & fats; sugar; coal & granite; plywood; television, textiles & garments, chlor-alkali; oleochemicals; food & consumer products; trading; multi-industry; and property. The industry composition of those companies in terms of value is shown in Figure 6.4.

Figure 6.4 Salim Assets transferred to Holdiko Perkasa, % of total value.



Source: Holdiko Perkasa Memorandum 1999, p.7[362]

6.5 Salim Asset Disposals

BCA Bank was declared healthy on April 25, 2000 by the government, and IBRA listed the bank through an initial public offering of 22.5% of IBRA's total shares on the Jakarta Stock Exchange on May 31, 2000[363]. The stake of the Salims in the bank had been taken over by the government except for a

[362] The figures given in the Holdiko report do not add up to 100%, but it is not clear to the author why.
[363] IBRA, 200a; 200b.

share of 7% and a new management had been installed tasked with restructuring the bank. Surprisingly, a few of the new bank executives came from Indomobil, another Salim company. The result of the IPO - proceeds of 109 million dollars - was considered disappointing[364]. An IBRA employee remarked:

> 'The Salim Group was unable to get back Bank Central Asia. Anthony Salim could not enter 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 leadership of Scott Coffey Holdiko Perkasa swiftly started to sell the assets under its management to investors. According to interviews with IBRA employees the process could be relatively quick because of the professional management of the Salim Group, and its adequate financial administration of the companies transferred. After some back and forth discussion in the government, it was agreed that the former owners could not buy back their assets for the coming two years.

In 1999 and 2000 several disposals took place. In the first quarter of 2001 the total proceeds amounted to around USD 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, largest Indonesian automotive company, which went to a consortium led by a Singapore company (see Table 6.3).

6.6 Leftovers & Asset Shuffles

The strategy of the Salim Group during this period was to completely focus on fire-fighting and dealing with its debt problems with 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.

Yet 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 the government and creditors. In that process they handed over

[364] According to the Financial Times (2000a). This lack of interest spurred Business Week (2000) to publish an article under the title 'Crony bank, anyone?'

large parts of the Salim empire, while holding on to a few of the most profitable assets in Indonesia (i.e. Indofood) as well to some non-Indonesian companies.

Table 6.3 Assets Disposals by Holdiko in 1999 and 2000

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

Source: Holdiko, 2001. All figures have been converted to USD using the end of year rupiah rate of 2000[365].

Aside from those companies transferred to the government, the Salim Group also tried to sell non-core assets outside Indonesia. Apart from Hagemeyer, which has already been mentioned, other companies that were sold included

[365] The end of year rupiah rate for 1999 stood at 7085 while the 2000 rate was 9595, so there is a substantial difference. As the exact sales date of the assets was not always clear, I've taken the 2000 rate for all transactions.

property & supermarkets in Singapore[366]. The Salim Group had several investments in Singapore, of which it also tried to sell a 23% stake in United Industrial Corporation (UIC) initially to a company called HKR. After that deal fell through they finally sold the stake to JG Summit Group from the Philippines for approximately 194 million USD[367].

Next to the sales of assets, there were also internal changes within the group to raise money or shift control, for example to bring one Salim company under control of another, or to merge one Salim company with another. A recurring theme was that these asset shuffles usually did not succeed due to objections from creditors or minority shareholders. When the Salims tried to bring Indofood out of the country, it was finally bought by First Pacific, also a Salim Group company. The Salim Group sold its direct shareholding in Indofood to First Pacific at a discount but remained in control (by virtue of their majority shareholding in First Pacific). The sale of the shares was done to bring 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. QAF announced in 2000 that it would take over edible oil refineries in China by the name of Yinfu International Ltd (based in Fuqing) and Shanghai Yinfu Oils and Fats Industries Co Ltd. Due to 'certain legal and regulatory issues' the agreement was later aborted[368].

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 taken over by the Salim family, by means of issuing bonds to the Salim family which could be exchanged for shares in Indomobil after three years.

Indocement also was special: it was the only company in which Liem Sioe Liong stayed in the board position, which could indicate that the Salim Group was eager to hold on to this company. Already in 1998 Anthony Salim had found a partner for the company, when Indocement almost collapsed under debts. Initially Anthony Salim agreed with the German multinational Heidelberg Cement Group to share the ownership, but the government did not allow this and exercised power to block the Salims from keeping their company Indocement. A manager of Heidelberg Cement Group, who bought into Indocement said:

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[366] Belgian retailing group Delhaize bought 49% of Shop 'n Save (previously under QAF) for approx. USD 14.5 million (South China Morning Post, 1999a).
[367] See for example the South China Morning Post (1999a).
[368] See AFX Asia (2001).

> 'Finally the government 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 have a 50/50 partnership with him, because he is not very much liked any more in Indonesia. Make it a minority share. I told them I need a local partner with knowledge. So finally I ended up, against my wish, buying 65% of the company while Anthony Salim had 13%'. (Heidelberg Cement Group Manager)

> 'I will tell you a story of Indocement. When IBRA opened the bidding, two days before the bidding there was news in the market that Heidelberger Cement was interested. And that Heidelberger has an agreement with Salim in Hong Kong. Back to back arrangement. So we got the management of Heidelberger in and told them that if this is true, they will have to pay a penalty. They actually told us that they had the agreement, 50/50 where Salim would manage it. I told them, cement is not high technology, you can manage it yourself. So they cancelled the deal with Salim'. (Former Indonesian Minister)

On other fronts the government pressured Salim as well, especially those businesses that were considered "crony" businesses. A European partner said:

> 'The pressure on the Salim Group became enormous, at the time they were afraid 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 the Salim Group to exit from our cooperation, 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, and with good relations with the government'. (Western Partner of the Salim Group)

As a result of the Asian Crisis, the structure of the Salim Group changed: it diminished in size and changed in composition. The portfolio now merely consisted of First Pacific, which in turn controlled Indofood and PLDT, a major Philippine telecom operator. Also, the focus was now completely on Asian markets, in particular Indonesia and Philippines, as the European assets (Hagemeyer) had been sold.

6.7 Leadership

In the previous chapter it was demonstrated that Liem Sioe Liong was in the process of transferring his central leadership role towards Anthony Salim. The Asian Crisis accelerated this process: Liem did not return to Indonesia and stayed in Singapore after the May 1998 riots and the very critical negotiations with the Indonesian government were handled by Anthony Salim. As is shown in Table 6.4, Liem withdrew from all company boards (except Indocement). Managers indicated that he still played a role in the background, but the decisions were now taken by Anthony Salim. It was him who did all negotiations with IBRA. When it was necessary to make statements in the press, he would put forward Benny Santoso rather than appearing in the news himself.

Whereas prior to the crisis, the Salim Group had enjoyed close relationships with Suharto, these had turned against it in the crisis, with public sentiments running against any company associated with the previous regime. Anthony Salim moved carefully in this environment. On the one hand he cooperated with the new government and fulfilled its demands (albeit after tough negotiations). On the other hand he never abandoned Suharto publicly, despite the fact that everybody rushed to distance themselves from the Suharto family in late 1998.

Table 6.4 Board Memberships by Liem Investors and Benny Santoso

Name	1994	1995	1996	1997	1998	1999	2000
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

The policy of many Chinese to open up more to the outside world, initiated in the period prior to the crisis, was reversed. The Salim family largely disappeared from the news, using Benny Santoso when it was necessary to explain sensitive strategies such as shifting the ownership of Indofood 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 unclear whether Anthony Salim would be arrested. The following story was told to me by a Salim manager:

> 'During the crisis we had some information that Anthony Salim would 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 will be arrested. So he said, 'if I have to go to jail, I will go, it is my responsibility'. We were surprised, but this is his attitude'. (Salim Manager)

At that time the threat of the Salim Group being completely confiscated by the government and its leaders being put in jail was very real. Anthony Salim himself tells 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 can still exist under the new environment; 2. Is this going to be a political or commercial, economical solution. If this is a political solution you can do anything you like, nationalize companies or put someone in jail. But we believe it is a commercial solution: the new emerging country for economic policy heavily depends on IMF World Bank and bilateral support. We believe that has not been changed. So we believe commercial solution is one of the solutions for the economy. Secondly, it is not only us. It's total: financial, monetary, corporate crisis. We are one of the problems, no doubt a big one, but one of the many. (..) So we talk to the government, if this is going to be a commercial solution, let's talk about it. Number 1, we have the capacity to pay you. Now if you want cash, I don't have it. Number 2. Let's define what the rules are. It's not my rules, what will be the total solution for banking and monetary and corporate. So within the rules, let's talk about how the Salim problem and solution fits in. (..) When that's established they have the product of MSAA, BPPN. So that is the product of the IMF, government'. (Anthony Salim)[369]

However, other interviews and media sources indicate that the group was clearly in a position to influence at least some environmental factors, so this can only be part of the story. There must have been a lot of high-level political activity behind the scenes, as an earlier agreement with Wahid already indicated. IBRA officials too hinted at activity on a higher political

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[369] 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).

level but at the same time join in saying that Anthony Salim focused on the problem and was very pragmatic in his dealings with IBRA.

The changed environment had a profound impact on the way the Salim Group operated. Whereas prior to the crisis visitors were lining up to meet Anthony Salim with business proposals, the office now became silent. Some IBRA officials told me they believed he was lonely. The image of a powerful group was suddenly changed into that of a troubled group. It must have been hard to swallow.

Indeed in this period the professional top-managers of the group (those heading Indofood, First Pacific, Indomobil, and Indocement) did not leave the company but tried to get out of the crisis together. Interview reports show that some of the management of the companies that were sold (e.g. from Indomobil and from the palm plantations) joined other Salim companies. As we will see in the next chapter however, some of the strategies implemented to save the Salim Group were hard to swallow for them.

6.8 Summary and Conclusions

Thus, during the crisis in 1997-2000 the previously favourable political and economic environment turned into an extremely hostile business context for the Salim Group. It suffered from corporate debt, falling stock prices, and an attack on their bank as well as mob violence against the family directly.

Being surrounded by fires everywhere, the group adapted a strategy of fire-fighting. All new investments were stopped. Within the context of the political and economic crisis the future of the Salim Group was highly uncertain. Anthony Salim's multi-level negotiations allowed the group to come out of the crisis alive and as a free man, but he had to hand over most of his assets to the government. Some other assets outside Indonesia were sold to raise capital, such as Hagemeyer.

Nevertheless, the group held on to several important companies, such as First Pacific and Indofood, to his share in UIC, as well as to some smaller private companies. It structure changed and First Pacific, now also controlling Indofood in Indonesia and PLDT in the Philippines, became the key asset. Salim Group tried hard to maintain a majority shares in all these three companies. As a result of the changes, the Salim Group became again an Asian rather than an international conglomerate. Anthony Salim was now clearly in charge and his father Liem Sioe Liong withdrew from most management positions in the Salim Group companies (Table 6.5).

Table 6.5 Summary

Period	Institutional Environment	Strategic Choices
1997-1999 regime change	- anti-Chinese riots and looting create hostile atmosphere for Chinese business - Suharto's regime falls apart - IMF stops protectionist policies - anti-cronyism	- use connections to survive & help Suharto family - focus on solving the crisis - comply with government demands, sell businesses to pay debts - retirement of Liem

Chapter 7: 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

7.1 Introduction

In the previous chapter the black years of the Asian crisis were described in which the Salim Group went through a crisis. It weathered the storm of the Asian Crisis only barely. The leadership was now passed to Anthony Salim, who had to hand over large parts of its empire in the process of coping with the political and economic crisis in Indonesia.

Starting from 2001, the group made its first steps on the bumpy road to recovery in the context of a modest recovery of the Indonesian economy and a 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 cost still high and the institutional context weak.

Despite some internal conflicts within the Salim Group, by and large a process of buying and buying back started. The buy-back preparations were highly controversial. Besides this the remaining companies were re-structured and by the end of 2003 the Salim Group was in a better shape and looked 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 changed.

The chapter starts with a description of the business context in 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.

7.2 Business Context

As of 2000, the Indonesian economy showed more stability and resumed its growth, albeit at a much lower rate than prior to the crisis (around 3-4% in

2001-2003)[370]. These growth rates were not able to absorb the new entrants to the labour market, and were considered too low to decrease poverty. Indonesia recovered from the crisis much slower than the surrounding economies[371].

Factors that contributed to this slow recovery were the still 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 turned positive only 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 started to post modest profits again while they were still struggling to lower their debt levels. Indonesian exports did relatively well, and contributed to the modest economic growth (although mainly because of a few commodities), together with private consumption. Generally speaking, export recovery, like overall economic recovery, was slower in Indonesia than in Korea, Malaysia and Thailand[372].

Indocement, UIC, Indofood and Indomobil had made some attempts to increase their previously negligible exports after the crisis. This was a logical strategy in view of falling domestic demand, dollar denominated debt and a depreciated rupiah. Despite this, none of these listed companies became particularly strong in exports. Some non-listed Salim companies, for example the pig farms in Bulan that were producing for the Singapore market, were specifically set up for exports to nearby Singapore. Data from Holdiko also show that some private Salim companies were world leaders and exported most of their products. The larger Indonesian listed Salim companies, however, were never willing or able to export.

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

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[370] 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 January 6, 2005].

[371] See IMF (2004).

[372] See Athukorala (2002).

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

One of the main issues that surfaced during the crisis, KKN- or corruption, collusion and nepotism, was not effectively addressed, and as a result of this the institutional environment remained weak and corruption cost high. In addition to this the decentralisation policy also brought adverse consequences, such as a higher cost of doing business due to new local regulations and more corruption[373]. One expert interviewed for this study stated: 'something worse than organised corruption is unorganised corruption' and another complained about increased cronyism and corruption: 'Now under [President Megawati, daughter of former president] Sukarno you only have to be loyal, meaning to pay. It's 100% cronyistic'. Although the Salim Group lost their patron Suharto, under the subsequent governments they tried to influence policies by using their contacts - and, if the interview results are correct, by paying bribes to people close to former president Wahid.

With regard to the measures implemented by the IMF packages during the crisis, their effects became noticeable once the crisis faded. The protection rate of domestic industries was greatly reduced as a result of these measures. The lowering of protection rates and abolishment of favourable marketing and distribution schemes probably had adverse effects on some Salim operations, such as flour milling, cement and chemicals. It is hard to demonstrate a direct link between the changes in regulatory environment and the performance of the Salim companies. Such a link however, is suggested in the interviews by insiders. The data available in the annual reports of Indofood, UIC and Indocement show that profit margins of most companies continued to decline (Figure 7.1).

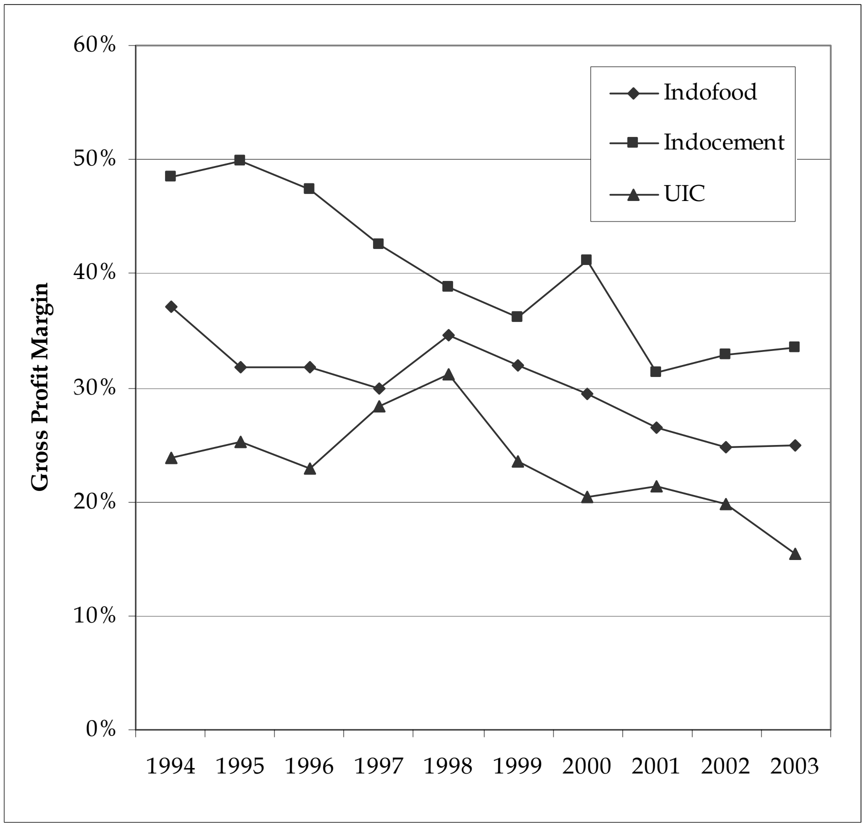
In particular we see declining margins for UIC, a monopolist in alkylbenzene production protected by an import tariff of 15% prior to the crisis, which was lowered to 5% in 2000. Indofood shows declining margins, but as the figures are consolidated and include both the noodles and the flour milling business (as of 1997), it is not clear whether one or both products have caused this decline. Interviews suggest that the noodles faced competition from a local group, whereas Bogasari suffered from the new regulatory environment[374]. In 2001 Indocement was taken over by Heidelberger Cement. Indocement showed increased profit margins in 2002-

[373] See for example Dick (2001).

[374] 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.

2003 because of an explicit strategy by Heidelberger Cement to focus on improving margins rather than on increasing volumes. This was different from the Salim Group strategy which focused on market share.

Figure 7.1 Profit Margins of Indofood, Indocement and UIC



Sources: Annual Reports

7.3 IBRA Asset Sales

After 2000 the Indonesian Bank Restructuring Agency (IBRA) increasingly became a source of controversy. Although the sale of the Salim assets proceeded rather quickly, the institution's overall asset sales process was slowing down while the changes in chairmen did not[375]. One of the IBRA employees interviewed for this study said: 'IBRA became preoccupied with power. The instinct of Asian bureaucracies is then to slow things down'. As

[375] During its 5 years of existence IBRA had 7 different chairmen, namely: Bambang Subianto; Radius Prawiro; Glenn Yusuf; Cacuk Sudarijanto; Edwin Gerungan; I Putu Gede Ary Suta; and Syafruddin Temenggung.

IBRA was approaching its agreed closure date (February 2004), it appeared that restructuring the banking sector was not highly successful and asset recovery was lower than expected[376]. Within IBRA some of the employees seemed embarrassed by the "politics":

> 'Within IBRA, Anthony Salim is the businessman that has won the highest respect. In fact I saw him many times. Every time we had a new policy or a new minister, I had to go to him and explain that now our policies are this and this, which was a bit strange. He is quite an amicable person, very bright, some 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 conglomerate owners around. I think he would like to avoid politics altogether if possible. Not much of a lobbyist'. (IBRA employee)

In the period from 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 of 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. In addition to that, some companies were sold to foreign firms, like the plantations which went to Guthrie from Malaysia. According to Scott Coffey, around half of the assets pledged by Salim were sold to foreigners[377].

But the assets put up for sale in the next wave of disposals by IBRA were those companies that were harder to sell. In 2001 76 companies were ready to be sold by IBRA, of which 28 were Salim companies. IBRA required the buyers to state in writing that they were not related to the Salim Group, but this was something that was hard 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[378].

> 'They got Indomobil back. The government bought the shares at 2700 a piece, but re-sold it at a quarter of the price to the highest bidder. This happened in 2000-2001. How I know? Well, in the deal with Suzuki there was a clause that should the Salim pull out as a

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376 See Pangestu and Goeltom (2001); Siregar (2001).

377 See Business Week (2003).

378 See for example United Press International (2002). In order to dispose of its shareholding in Indosiar IBRA initiated an IPO. On March 22, 2001 the company was listed at the Jakarta Stock Exchange. On November 28, 2001, IBRA and Holdiko announced they sold 49% of the shares to TDM Aset Manajemen, a newly formed company. The sale of 72.63% ownership in Indomobil was announced on December 5, 2001. The buyer was a consortium led by Trimegah Securities. People close to Anthony Salim have confirmed there rumours.

major shareholder, all loans would immediately become payable. Therefore it was obvious that Salim was behind the buying back of Indomobil'. (Financial Analyst)

'In IBRA there was a decree that the original owners cannot own their previous companies for two years. Now it is almost one year, so they are preparing now. After two years they are free to buy back. So far they use nominees: companies or other conglomerates. These are paid in the form of shares or something. Salim is quietly re-taking some of his companies such as Indosiar, Indomobil, Indomilk; shipyard'. (IBRA employee)

The sale of Indocement was initially controversial. The Group had an agreement with the future buyer, Heidelberg Cement Group from Germany, to jointly run the company[379]. However, under pressure from the government Heidelberg acquired a majority ownership, and swiftly started to change Indocement's strategy of diversification and sell off bits and pieces that were the result of prior diversification, such as property.

The sugar plantations received a great deal of attention, because of rumours that Anthony Salim tried to block the sale and was in favour of another buyer, closely associated with him, according to interviews with IBRA executives. 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 tricks to prevent the new owner from successfully operating the sugar plantation. Court cases followed, while another asset sale also was criticized because Anthony Salim intervened.

'There was the case of a Mosquito Coil company, where the new owner had a no competition clause; however Anthony Salim built a factory next door and hired all the 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 since the factory was sold, but not the land. IBRA initially did not know that there was land, there was nothing indicating this. When we went to do a due diligence with the prospective buyer we found out that the land rights were in another company. It was not traceable to Anthony Salim, IBRA could not prove that the land was his, the only reason we knew was the name of the company – indo-something – and secondly the people working on the land sold to the factory, and the plantation workers' salaries were paid by that company.

[379] The transaction to sell the Holdiko ownership of Indocement shares to Heidelberger Cement was finalised on April 18, 2001.

> There was nothing illegal about it, but it serves as an example of how ownership patterns are 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 cooperation etc. Unlike the others, they only play in the grey areas, like asset valuation, not in the written, clear agreements. Other conglomerates used blatant manipulation'. (Financial Analyst)

However, these well-publicised cases seem not to be the norm as most sales proceeded rather smoothly without much ado (Table 7.1). But the most sensitive case of all was Bank Central Asia. IBRA still owned 70% of the bank in 2001. It was politically a sensitive sales process, and people rumoured that the Salims somehow wanted to buy back the bank. High-level politicians were involved and the parliament delayed the sale over concerns of 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[380].

Press reports and interviews contract each other, and it is not completely clear what exactly happened. According to insiders interviewed for this study, the Salim family held on to a separate company that was responsible for the IT systems related to the bank – thus keeping a core function of the bank under control. Interview results indicate that although the Salims may have been involved in the buy-back process, they did not have control over the bank. The consortium that won control of the bank was composed of several groups including US-based investment fund and the Djarum family from Indonesia.

When the last Salim assets were sold by IBRA in 2003 the government obtained a total of around USD 2 billion, a recovery rate of between 30-40%[381]. Many complained since they felt that the remaining balance had to be covered by the Indonesian public. Moreover, the Salims were able to buy back some of their own debt for a much lower price, and were reckoned by some to have actually gained in the process.

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[380] See for example Asia Pulse (2002).

[381] Reported in Business Week (2003). Based on Table 6.3 and Table 7.1 I arrive at a total of USD 2.4 billion, which would be a recovery rate of 48%, but the difference can easily be caused by taking a different currency rates. The average recovery rate for all Indonesian debtors stood at 28.5%. This is comparable with the Malaysian results (29%) but lower than Thailand (35.34%) and Korea (39%) as reported by Tempo (2004).

Table 7.1 Holdiko Asset Sales 2001-2003

Company Name (Shareholding)	**Product**	**Buyer**	**Proceeds (USD)**
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	Steel drums	Kerismas Witikco Makmur	6 million
Indosiar (49%)	TV station	TDM Aset Manajemen	89 million
Riau Industrial Estates	Real Estate	Dwi Sinergi Utama	83 million
Yakult Indonesia Persada (51%)	Health drinks	Yakult (co-shareholder)	7 million
Indomobil (72% + bonds)	Automotive	Trimegah (local consortium)	74 million
Sugar Group	Sugar Plantations	Garuda Pancaarta Consortium (local consortium)	137 million
Berdikari Sari Utama Flour Mills (93%)	Flour Milling	ATS consortium	27 million
Bank Central Asia (51%)	Banking	Farallon Capital Consortium	662 million
Metropolitan Kentjana (48%).	Property	Berca Indonesia Group	78 million
Total			**1.415 mln**

Sources: IBRA, 2001-2003[382]

[382] 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 dollar using the end of year rupiah rate of 2003. The list of asset sales does not

Nevertheless, the Salim Group is generally believed to have been the most cooperative debtor from whom most funds were recovered compared to other Indonesian conglomerates. As one IBRA employee put it: 'it was such an emotional period. Anthony Salim got us through by just focusing on the problem'. Anthony Salim admits that the group has learnt a very hard lesson. But the issue is: 'Simply face reality. Confront the problems. Never give up'.

By the end of 2002 the government started contemplating giving those who had paid off their debts a letter stating that they had fulfilled their obligations. This letter, flowing from the original MSAA (Master Settlement and Acquisition Agreement), would also free them from future criminal charges related to their debts in the Asian Crisis. The initial list of people eligible was composed of 3 of the Liem investors (Anthony Salim, Sudwikatmono, and Ibrahim Risjad) and two other smaller conglomerate owners, later complemented by Suharto's daughter Tutut. Being a highly sensitive topic, nobody in the government dared to sign the letter. The letter was in the end approved (but not issued) by the Financial Sector Policy Committee in January 2004[383]. IBRA formally closed in February 2004, although some people remained in office to deal with administrative issues. The Release and Discharge letter to Anthony Salim was finally issued by IBRA in March 2004[384].

7.4 The Axis of Opportunity

After a few years of coping with the Asian Crisis, the Salim Group started to take its first steps towards growth, albeit not at the rate achieved before the crisis. Based on the interviews, the strategy of the group was changed in three aspects: the geographical as well as industry composition of the portfolio and the network orientation.

With regard to the geographical composition of the group, Anthony Salim aimed at achieving a portfolio of companies with 50% inside Indonesia and 50% outside, thus reducing the dependence on Indonesia, which would however still remain the most important market. He saw an axis of opportunity in the Pacific region, between Australia, ASEAN and China. In the words of Anthony Salim:

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appear to be complete if compared with the companies that were handed over by the Salim Group.

[383] See for example the Jakarta Post (2004a).

[384] See for example the Jakarta Post (2004b).

> 'Salim will be able to arbitrage between China, Asia, and Australia. How we define is very wide. That is the game. There will be a north south axis in Asia. Between China, as a main point of gravity Japan, to a certain extent Korea and Australia. And a little bit of India. This equation will hold almost 2 billion people. And 2 billion rich people, because they have a growth of 4-8% so in a few years (..) that's as big as America if you put that together. We can arbitrage.' *Question: Between China and Australia?* 'No, all products and services.' (Anthony Salim)

If there was an opportunity to link these countries, for example the Australian expertise in agribusiness with the Chinese and Indonesian markets, then lucrative business could be achieved. A few steps were taken to realise this strategy. One of the examples of this strategy was the acquisition of a minority share in listed Australian company Futuris. Futuris had a wheat division, and Indofood was one of the largest wheat importers for its noodles. Following the acquisition of this minority stake Anthony Salim was appointed on the board of directors of Futuris in March 2003[385].

In China, the group paid USD 500 million for a 45% stake in the COSCO property group[386]. According to Anthony Salim, these acquisitions fit in a strategy where the Salim Group aims at mediating on the axis between Australia- ASEAN – China. On this 'axis of opportunity', the Salim Group will not be a product based company: they will use their expertise and capital to mediate in any lucrative business in the region, be it in 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 the industry composition, the Salim Group wanted to move away from a very large number of smaller companies, but instead focus on a few sectors they know well. This objective was already achieved because of the crisis, since most 'bits and pieces' were handed over to IBRA while the Salims held on to a few large businesses. Most of the new investments fall into the food, telecom, media, and property categories, which are all industries with products or services for the masses.

[385] According to the annual report of Futuris in 2002.
[386] According to a report by Jones Lang LaSalle (2002, p. 12).

The Salim Group perceived its key competence as a mediation role with good knowledge of local markets. According to Anthony Salim he wanted 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 that changed was the network orientation. The importance of political connections seemed to fade. After the crisis, the Salim Group did not start new activities with political connections, and apparently did not want to or manage to link up with new power holders. One person close to the group said that Anthony Salim could not get along with Suharto's children, which led to more distance between Suharto and the Salim Group already before the crisis.

In addition, 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, connection 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 shoes factory for employment and so on. Anthony he does not care because he was born here. Of course we invest in China, but not because his father came from China. We believe that China is very prospective, 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 is 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 business, 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 the region, not the surname. Many have risen above the clan networks, Liem being one of them. Because people started to study abroad and also through changes in the structure, 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 before the crisis, we now negligible compared to contacts with foreign partners. According to Anthony Salim his strategy was now less based on connections:

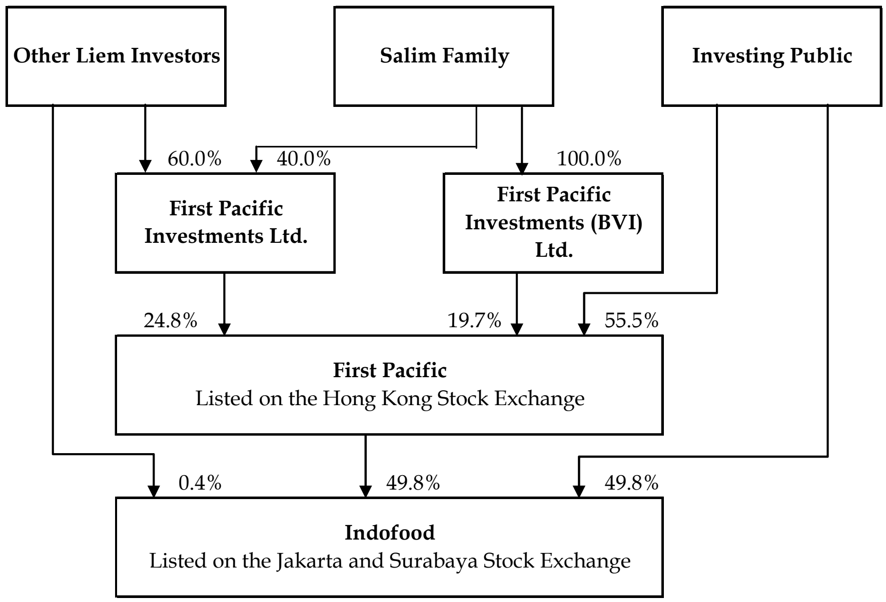
> 'During Suharto time we thrive in that constellation. During crisis time, when I work with IMF and the World Bank here, we adapt ourselves, we become more market oriented. Post-IBRA, we are thriving, we are also adapting to a new market situation.' (Anthony Salim)

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 in different markets.

7.5 The Salim Group Structure & Control

After the crisis First Pacific Company, the listed Hong Kong based conglomerate, held the two largest remaining companies: Indofood and PLDT. As was discussed in previous chapters, the ownership structure was basically a pyramid structure. This continued to be the way in which the Salim Group was formally structured (see figure 7.3).

Figure 7.3 Ownership & Control of Indofood in 2002



Source: Annual Reports of First Pacific and Indofood 2002[387].

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.

> '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, non-listed holding is more flexible to embark on what we want to do'. (Anthony Salim)

There were some exceptions now to the majority ownership principle. The majority ownership of Indocement was sold to Heidelberger Cement. Despite having lost control over the company, a minority stake of 13.5% was retained, and Benny Santoso remained on the board, as well as Ibrahim Risjad. This could indicate a long term interest of the Salim Group in the

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[387] 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.

company. A 7% stake in BCA was also retained. In Indomobil, a company that was in severe financial trouble, the Salims sold part of their stake to partner company Suzuki, with the option to purchase it back in the next years. Despite the fact that they now had minority stakes in the different Indomobil companies, the company remained part of the Salim Group and the core management was not changed. A top-manager interviewed for this study admitted that Indofood 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 not any more part of the Salim Group, but informally it 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 with the external control of minority shareholders. Indocement and Indomobil, both previously under IBRA, were now minority owned by the Salim Group, but the latter was still considered part of the Salim Group.

7.6 Leadership

From 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 Salim Group companies, such as Indocement, Indomobil and Indosiar. As these companies were now not any more majority-owned by the Salim Group, the Salim family withdrew from those boards of directors. However, in those companies that the Salim Group planned to buy back, like Indosiar and Indocement, the rest of the management was not changed, and in the two above mentioned cases Benny Santoso kept his position in the board. In 2003 Benny Santoso had more board positions (within companies in the author's database) than Anthony Salim (Table 7.2). Interviews indicate that a similar thing happened in the private companies: if the management was not changed, it was likely that the Salims were still in control, or planning to in the near future.

The withdrawal of Anthony Salim 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 a rapid withdrawal of Liem Sioe Liong from most company boards. Andree Halim also withdrew from his Indonesian board positions. It became clear that Anthony Salim was fully in charge – he was personally doing all negotiations on behalf of the family with creditors and with IBRA as witnessed in one of the IBRA reports (and supported by the 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)[388]

Table 7.2 Board Memberships Liem Investors & Benny Santoso

Name	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 the majority of the shares of QAF and entered 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 a small company listed in Hong Kong (Peaktop International Holdings Limited), which was – according to one of the interviews, run by his wife[389]. After the crisis Andree Halim got a separate corner of the family business group.

The major share of the empire however, was run by Anthony Salim. The structured coordination between the companies by means of companies like Salim Inti Corpora changed. Inti Salim Corpora was not any more used and

[388] 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 Anthoni Salim.

[389] 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 May 29, 2005]

the number of financial people working directly with Anthony Salim had decreased. Several interviews indicate that any cross-company coordination was now directly through Anthony Salim personally making the group more and more dependent on him. Managers said that after the crisis it felt more as if each manager was just running his/her own business rather than the pre-crisis "family" feeling.

> '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 Manager)

During the crisis none of the top-management left the company, but after the crisis several internal conflicts or changes arose within the top-management. Angky Camaro resigned from Indomobil and took a top position in Sampoerna. Eva Riyanti, who had already occasionally showed some disappointment in the strategy of Indofood in the press, now ended up in a conflict with Anthony Salim and resigned in December 2003[390]. She was replaced by Anthony Salim himself. Manuel Pangilinan, responsible for First Pacific, also clashed with Anthony Salim. Apparently the Salims wanted to sell PLDT, the Philippines telecom company, and Pangilinan successfully blocked the deal[391]. While Manuel Pangilinan was previously chairman of the board he now had to hand over the latter position to Anthony Salim and stayed on as CEO. Anthony Salim's second man Benny Santoso was also appointed to the board after the COO and finance director resigned over 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 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

[390] See Financial Times (2003b).

[391] 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 USD 102.2 million (Financial Times, 2002a, 2002b, 2002c).

> for the profitability of each product. So we submitted a pile of papers, and he actually did read it. He commented that product such and so was not profitable. He has very good and creative ideas; fresh remarks'. (Salim 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 the business'. (Person close to the Group)

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

7.7 Summary & Conclusions

Thus, after a period of fire-fighting, the Salim Group embarked again on a growth strategy, confined within the Pacific region. The Indonesian business context changed from hostile to slow growth and recovery, and most of the previous problems, such as lowering debt and dealing with IBRA, were in the process of finalisation. The remaining Salim companies, particularly those under First Pacific, started to recover, although margins were under pressure.

Within Indonesia, most of the IBRA sales were completed and those companies sold to foreigners were beyond the control of the Salim Group. Yet it also made preparations to buy back a few of the former assets, such as Indomobil and Indosiar. Indocement was now majority owned by a German cement-maker, but the Salim family held on to a minority stake, which was an unusual strategy since most companies tended to be majority owned through a pyramid structure.

The new post-crisis structure and strategy of the Salim Group differed very little from that before the crisis, except for relatively 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 running between Australia, ASEAN and China, on which it planned to be a mediator.

Anthony Salim seemed to consciously or unconsciously disrupt many of the previously strong relationships with ethnic Chinese groups, connections, close partners and his own CEOs. The leadership of the Salim Group underwent a couple of changes, most notably the stronger dependence on Anthony Salim as a central leader. The former structured way of achieving synergy was replaced with an informal coordination mechanism (Table 7.2).

Table 7.2 Summary

Period	Institutional Environment	Strategic Choices
2000-2005 refocusing the portfolio	- continuation of IMF liberal economic regime - tariff barriers and protectionist policies now largely abolished - new type of politico-business alliances with new power-holders	- refocus business, more emphasis outside Indonesia - Asian multinational player - compete for maintaining market share

Chapter 8: Evolution of the Salim Group Strategy

8.1 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 before the crisis the Salim Group showed a strong growth pattern and attempted to achieve synergy between the portfolio of diversified companies, in the crisis the growth stopped and the Group declined while it had to cope with an extremely hostile environment. Only after the crisis did the Group start new investments, and it modified some minor aspects of its strategy while 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 summarizes salient aspects of the rich narrative from the previous chapters. I emphasise the two themes identified in chapter three: 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 procedure. The last section deals with the coevolution of the Salim Group and Indonesian institutions, focusing on mutual influences between the two.

8.2 Corporate Strategy of the Salim Group

After telling the history of the Salim Group from its inception until after the Asian Crisis, it is now possible to make an overview of the institutional context of the Salim Group as well as to describe what strategic choices the Salim Group leadership has made over time (Table 8.1).

The Salim Group started out small and then diversified to cope with a chaotic business environment. It had to adapt to a colonial regime, then Japanese occupation, a colonial war, and an emerging national state. It focused in its initial stage 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 main companies were producing for the domestic market.

Table 8.1 Strategy of the Salim Group over time

Period	Institutional Environment	Strategic Choices
1938-1945 Genesis	- Chinese enjoyed strong position in trading - business context for private business strictly regulated - opportunities in smuggling/trading	- small scale trading of various products - close cooperation with family members
1945-1957 Army relations	- difficult business environment - demand for basic products - important role of the army - start of a national economy	- initial small-scale diversification - manufacturing of basic products and banking. - supplying goods to the army
1957-1965 Diversification	- nationalistic political environment - slow economic growth - rising power of the army in business.	- trade and manufacturing of basic products, - diversification and expansion
1966-1972 Capitalising on Suharto's New Order	- 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	- linking up with Suharto to develop economy - evolving conglomerate as new business opportunities arise, e.g. import substitution industries
1972-1980 Institutionalising the business	- flourishing economy - industrialisation - business opportunities exist, especially when linked to Suharto or army	- government connected business - supplemented with international businesses - design the conglomerate: institutionalize & professionalize
1981-1993 Institutionalising the business	- oil crisis and currency depreciation - import substitution efforts halted - export promotion policy - reduced cronyism	- build international businesses - expand local businesses - work with government in order to resolve losses in various industries
1994-1997 Rapid growth	- continuation of liberal economic policies - protection of selected businessmen - activity in connection with Suharto as his succession is discussed - more crony capitalism - FDI inflow	- continue internationalisation - restructuring & vertical integration - hiring professional managers - small businesses with Suharto's children - fast growth of existing & new businesses, increasingly with foreign partners

Table 8.1 Continued

Period	Institutional Environment	Strategic Choices
1997-1999 Regime change	- anti-Chinese riots and looting create hostile atmosphere for Chinese business - Suharto's regime falls apart - IMF stops protectionist policies - anti-cronyism	- 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	- continuation of IMF liberal economic regime - tariff barriers and protectionist policies now largely abolished - new type of politico-business alliances with new power-holders	- refocus business, more emphasis outside Indonesia - Asian multinational player - compete for maintaining market share

The domestically oriented business model was completely different from that of large ethnic Chinese companies in the colonial era. In those times ethnic Chinese businesses developed a business model based on producing commodities that were meant for exports, such as rubber and sugar. The Oei Tiong Ham Concern for example, 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 he focused instead on domestic buyers.

When Sukarno came to power Liem linked up with the army, which was at the time a major player in business. Sukarno was not interested in private business and he implemented poor economic policies resulting in economic decline. In addition he implemented policies discriminating against Chinese businesses. In this hostile context Liem achieved some stability as a supplier to the army. Already in this period Liem looked for suitable partners, and found both ethnic Chinese as well as political connections in the form of a family member of Sukarno. 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 on the motto all business is good Liem diversified from the beginning, a characteristic of the Salim Group present till date.

Suharto needed legitimacy for his power, which he soon realised lay in improving the economy. Ethnic Chinese partners were perfectly positioned to help Suharto in this respect. Several ethnic Chinese businessmen were competent, willing, and familiar with a crony model through their contacts with the army. On the other hand, they formed a despised minority which stood no chance of getting political power. As they were easily made scapegoats for Indonesia's problems and discriminated 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.

Only during the Suharto period did the group evolve into a major player, and consistent with the opportunities of its time, it developed a range of businesses that produced goods for the domestic market. As Suharto created unprecedented economic growth, buying power of Indonesians increased, and there was a growing demand for the Salim products, which were protected from outside competition. It is this local-for-local business model that continues to characterize the Salim Group till date, both in Indonesia as well as abroad. Suharto aimed at modernizing and industrializing the country, for which he needed capable businessmen. Both relational skills as well as business competency played a role in the rapid growth of Liem's businesses and in Suharto's preference for Liem.

From the Sukarno period onward Liem sought partners for his expanding ventures, and carefully chose them to incorporate both people from his own ethnic Chinese circles as well as political circles and indigenous businessmen. While during Sukarno's leadership he linked up with a relative of Sukarno, under Suharto's leadership 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 was able to set up several industries that produced for the domestic market whereas these products 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 early industries included wheat, cement, automotive assembly and textiles. Once the group surpassed its peers, it developed the resources and the market power 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 more capital intensive industries such as steel were targeted, in which the Salim Group also participated along with the government and Western partners.

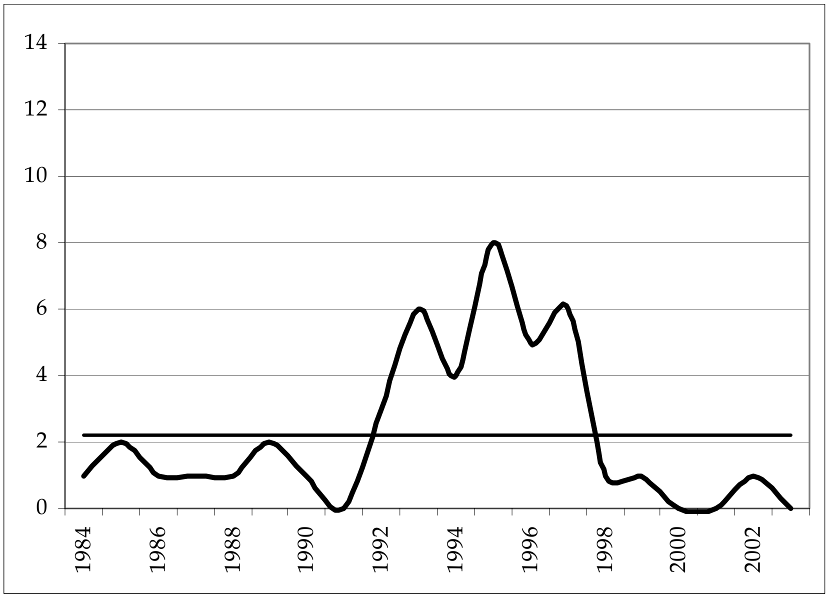
When Anthony Salim joined the business it was already large and intricately involved with Suharto. He tried to balance the risks associated with this political alliance and he attempted to professionalise the business by involving more non-family managers. In addition, he saw the need to build businesses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

While the founder of the business, Liem Sioe Liong, laid the foundations for success with the capability to select the right partners, which fitted the environmental conditions, the son tried to move the Salim Group towards a modern enterprise by making the business less dependent on relationships with politicians. Anthony Salim probably saw the risks in the alliance with Suharto, and tried to balance those risks by making the businesses less dependent on Suharto's favours. He also mitigated the risk of the alliance with Suharto by investing in international businesses and restructured the group into divisions, a popular concept at the time.

Even though he tried to move away from government contracts, there were still a lot of connected business ventures (Figure 8.1 indicating the number of partnerships and a trendline). The government bailed out the Salim Group in steel and in cement, clearly showing the preferential position the Salims had in Indonesia. Many of their companies enjoyed a certain degree of protection by special licenses or trade barriers. But the number of new crony businesses was indeed small compared to non-crony partners (Figure 8.4).

Anthony Salim's efforts, however, in a way ran contrary to the Indonesian context, 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, benefiting his family and friends. One could say that the strategy the young Salim was implementing worked against the business context, and that probably made the transition slow, and fall backs to crony businesses frequent. After all the Salim Group was immensely successful and a preferred partner for domestic and foreign businesses. There was no immediate necessity to detach themselves from the Suharto government, which was still firmly in power. 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.

Figure 8.1 Number of New Activities with Political Connections[392]

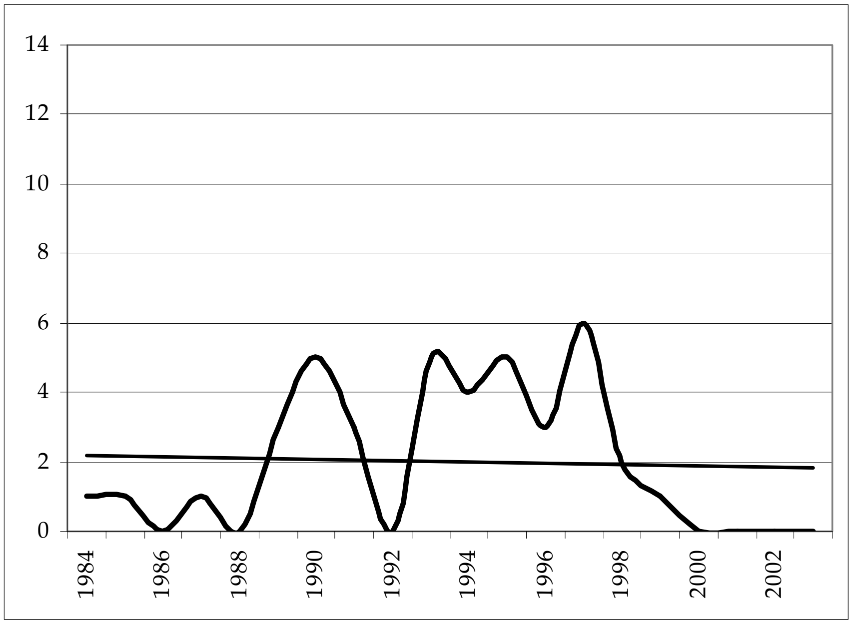


Source: Coding Results

Liem already lay the foundations for a diversified business group with his motto that 'all business is good'. Already from the 1970s the Salim Group moved into large scale manufacturing and became active in many of the key industries in Indonesia. Anthony Salim moved away from the traditional Chinese small family firm even more. He started to work with professional managers – not surprising given the size of the group – and implemented a more complex organisation structure. He professionalised the business to such an extent that foreign partners as well as government officials and bankers in Indonesia speak very highly of the corporate practices of the companies under Salim leadership. His investments and partnerships are selected on business criteria, and not on ethnicity. Although his father 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 started with ethnic Chinese partners was relatively modest and declined slightly over time (Figure 8.2 and 8.4). Although there were linkages 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 8.3).

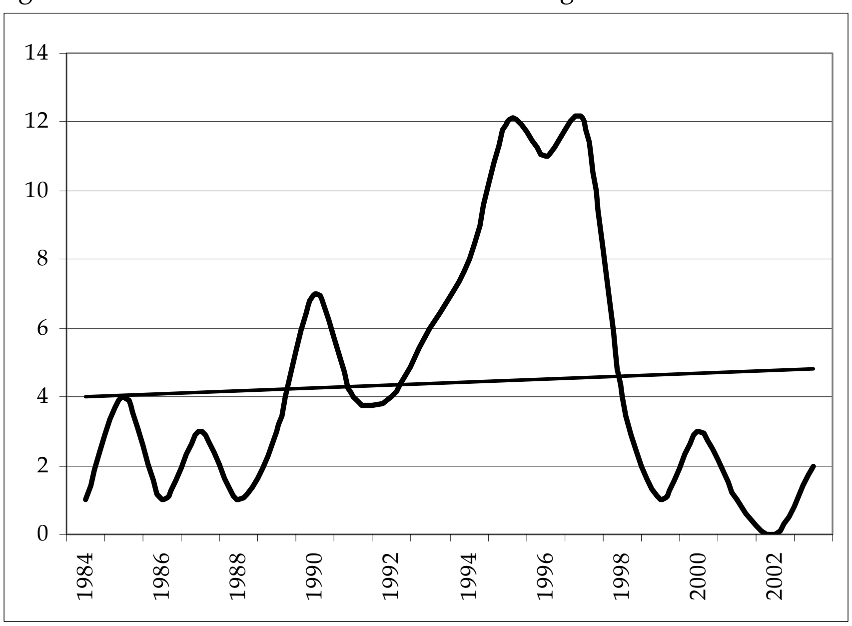
[392] The straight line in this Figure is the line that best represents the trend in the data based on the R-squared value. The same linear trendline technique was used in Figures 8.2, 8.3; 8.4 and 8.6. In Figure 8.4 and Figure 8.6 the trendline appears in the legend as "linear" followed by the name of data series between brackets.

Figure 8.2 Number of New Activities with Ethnic Chinese Partners



Source: Coding Results

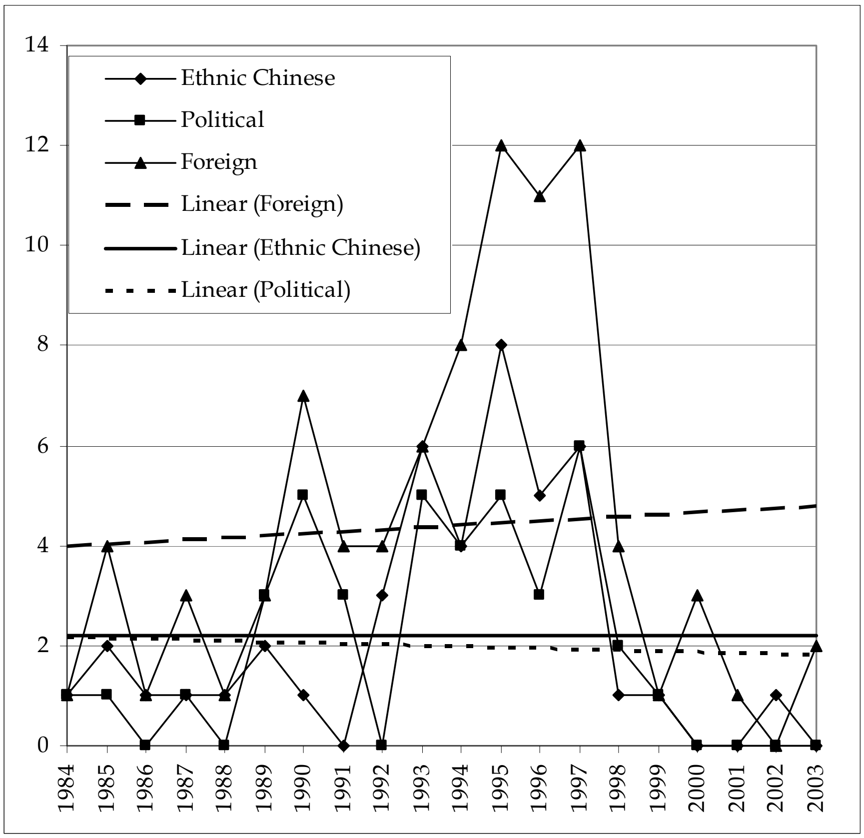
Figure 8.3 Number of New Activities with Foreign Partners



Source: Coding Results

In fact, activities with foreign partners occur more often than activities with ethnic Chinese and crony partners together (Figure 8.4). The results show that the Salim Group is more embedded in global business than in ethnic Chinese business. Interview results have confirmed 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, which used it to clear bureaucratic obstacles in a corrupt country. But this study shows how the Salim Group limited political connections as well as ethnic Chinese partners in favour of foreign partners.

Figure 8.4 Salim Group Activities by Partnership Category



Source: Coding Results

It appears that the second generation does not necessarily continue the partnerships of the first generation, even though Anthony Salim spent twenty years in the business before formally taking over the reigns. While Liem and Djuhar were close business partners for decades, their sons increasingly faced conflicts over business issues. While Liem and Suharto got along very well and developed a close relationship, Anthony Salim appears to do some business with Suharto's son Bambang, but has little involvement with the other children.

Because of declining oil revenues in the mid-1980s, Indonesia changed its economic policies. It had to abandon major public expenditures, devaluate the rupiah and it moved from an import substitution to an export promotion strategy. Although the Salim Group did start a few export businesses, such as shoes, 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 free from government contracts, this is not entirely the case. In addition, respondents claim that the Salims had a fixed weekly meeting with Suharto, which indicates their closeness 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 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 not any more dependent on 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 most central person in the group. A management information system allowed him to monitor his companies in detail. Anthony Salim also kept the opaque structure with hundreds of different companies. The network of companies allowed for opaque transactions, which were necessary to keep crony, ethnic and foreign partners happy. Since the 1990s a handful large Salim companies were listed on the stock exchange, although the holding companies remained private to retain the flexibility.

Within the rapidly growing Salim Group many internal transactions occurred, 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. An example of the frequent internal transactions can be found in Indofood, which through internal acquisitions achieved a large degree of vertical integration. From producing only 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 8.2). 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 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, foreign manager had acquired over time more freedom to follow their own course. The fact that, even after three decades of internationalisation, the "soul" of the Salim Group was still in the Indonesian businesses associated with Suharto showed clearly that the Salim Group was resistant to change and tended to stick to what worked in the past.

Table 8.2 "Soul" of the Group: Liem Investor Board Positions 1994-2003

Liem Investors	**total in database**	**Indofood**	**Indocement**	**Indomobil**	**First Pacific**	**QAF**	**BCA**	**UIC**	**Indosiar**
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

The real tragedy of the Salim Group is that, when the 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 taken as a symbol for the wrongdoings of the Suharto regime, and some of the businesses were attacked. Unable to influence the new government, which now took an anti-corruption and cronyism stand, the Group 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 and exercised political pressure on their Western partners to abandon the Salim Group[393]. These Western partners however were satisfied with their cooperation and only reluctantly complied.

Anthony Salim has insisted that he changed the business into a more professional and less crony enterprise, but the 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 its businesses and family house were physically attacked. The Salim Group strategy for independence may have turned out to be very partially implemented, but in at least one aspect it clearly paid off. First Pacific, its Hong Kong conglomerate, was able to save the cash cow Indofood in Indonesia. Even if it first had to sell most of its other businesses before it could 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 firmly in power (Table 8.3). He steered to Group competently out of trouble, tackling his debt problems and political issues one by one. Had succession issues arisen in this particularly critical time, or had the family been divided, this would have certainly negatively influenced the chances for survival. Other companies that 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 what strategy to take[394].

Another positive element of the crisis was that it suddenly set the scene for a more liberal market environment. IMF forced Indonesia to abolish protectionist economic policies favouring cronies like Salim. This new environment fitted better 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. Also, investors, bankers and the new government admired the Group for their cooperation, and for the fact that

[393] 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).
[394] See Post (2006).

they handed over well-managed, professional companies after the crisis. Friends and enemies alike admit that the Salim Group was certainly the most cooperative and professional of all the large conglomerates that ran into trouble during the Asian 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 end up earning praise from his opponents.

Table 8.3 : Family Board Positions 1994-2003

Family Member	**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

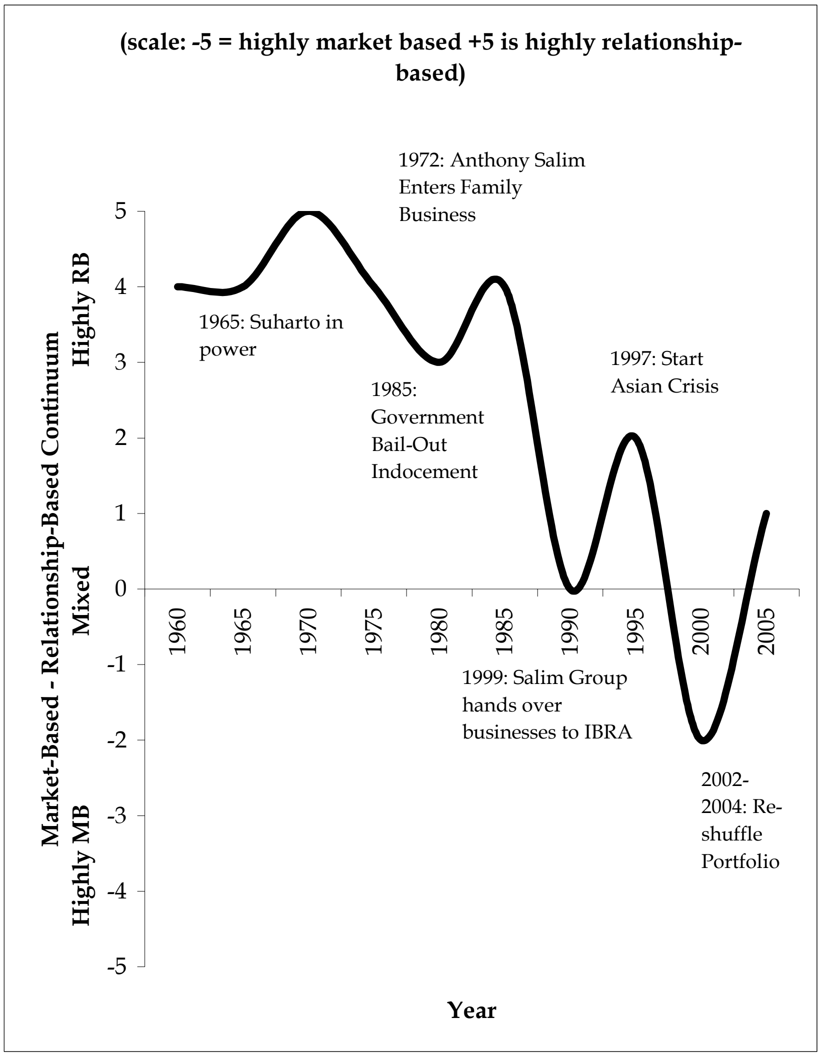
It is not surprising that it is exactly this dependence on Indonesia that Anthony Salim is now working on changing. He aims at bringing the relative importance of the Indonesian businesses back by investing in other countries. Anthony Salim has also strengthened his grip on a couple of key companies, both officially within the board as well as informally. But he also realised that relationship-building is one of the Salim Group's strengths. Prior to the crisis the group made forays into the US and European markets, but the crisis brought a radical change in this policy. The Salim Group now concentrates primarily on the Asia-Pacific region, targeting countries such as China and India for investments. Many of the countries in this region display characteristics of a market economy while also having relatively weak economic institutions. It is in this high-growth, government-led economies that the Salim Group knows how to operate and can develop into a multinational emerging market player.

8.3 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 change) and generational changes gave rise to a new strategic direction. As the external and internal factors influencing strategy are not aligned, and may be sudden, irregular, and different in intensity, it can be expected that in reality the strategy development of the Salim Group did not follow a neat linear pattern. This is illustrated following first an interpretative method, and secondly, through the coding procedure described in chapter three.

Table 8.1 was based on an interpretative analysis of the corporate history of the Salim Group and its context. Based on Table 8.1, 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, and +5 indicates a highly relationship-based strategy. If one interprets the intensity of the type of strategy and expresses it in 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 8.5).

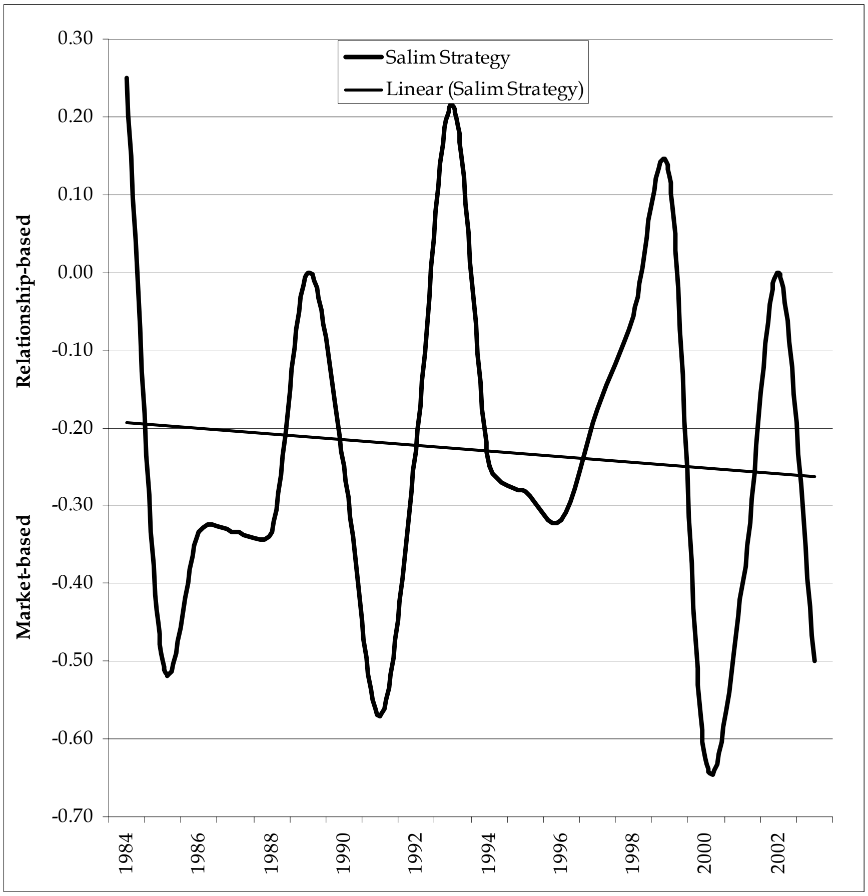
Figure 8.5 Interpretative Analysis: Salim Group Strategy



Source: Interpretative Analysis

An analysis of the business events following the coding procedure gives a similar oscillating figure. In fact the oscillations following 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 8.6).

Figure 8.6 Coding Procedure Results: Salim Group Strategy



Source: Coding Results

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 business events to reflect their relative importance, the accurateness would increase, but the reliability of the method would decrease because the more complicated the measuring method, the more likely an independent coder will assess events in a different way. However, the fact that both these techniques show a similar strategic pattern strengthens the overall conclusion that the Salim Group strategy can be understood as moving from a relationship-based to a market based strategy as well as displaying an oscillatory pattern.

If one assumes that the first pole, the relationship-based model, is a strategy built on crony connections with politicians and (often ethnic Chinese) business partners, and characterised by pursuit of unrelated opportunities, seizing anything that comes along that provides either pecuniary benefits or strengthens useful relationships. The second pole, the market-based model, adheres to the "best practices" of international business, implementing rational exploitation of markets and resources, professionalizing management and putting in place formal financial and managerial control systems. It also strives for internationalisation, both in the form of bringing to Indonesia powerful foreign business partners and developing activities abroad.

Both poles offer opportunities for the Salim Group, both offer risks. The more a company moves to either one of the opposite poles, the larger will be the tension to move back. 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.

Summarizing the previous line of argumentation, while the founder of the business, Liem Sioe Liong, laid the foundations for a successful relationship-based model, which fitted 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 business less dependent on relationships. But the movement was not linear. While Anthony Salim tried to move away from dependency on Suharto, the opportunities and obligations attached to this relationship could not easily be broken or released. The more professional the Salim Group became, the more attractive it was as a partner for Suharto, as he could legitimately claim to have teamed up with the best business group in the country. The more the Group associated with Suharto, the clearer the risks attached to such an alignment in case of the demise of the dictator. For these reasons, the Salim Group swayed between the opposing poles and built competencies related to both the relationship and the market model. The oscillation approach applies well in the Salim Group case study. The strategy oscillations are clearly visible through interpretative and quantitative techniques, while the interpretative approach is able to explain why strategy displays an irregular pattern.

The study shows that the Salim Group not only adapted to external circumstances, but was also able to influence Indonesian institutions. Table 8.4 gives an overview of mutual responses and adaptations between Salim and Indonesian institutions.

Table 8.4 Mutual Influencing between Salim and Indonesian Institutions

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

The most important external factors are regime changes in Indonesia, which strongly impact the strategy of the Salim Group. As most of the Salim Group businesses are still in Indonesia, it is this institutional context that exercises most influence on the Salim Group strategy. The domestic institutional context can be divided in three periods which coincide with the different regimes in Indonesia.

Sukarno favoured socialist and nationalist policies in which the government, and particularly the army, strongly influenced the economy. Liem responded by linking up with the army. A more favourable business environment existed under Suharto's regime, which encouraged domestic capitalists, particularly those that 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 policies of industrialisation. A policy of cronyism and a relatively open economy coincided.

In the period of the Asian Crisis the institutional changed complete 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 took place. Liem responded by withdrawing and leaving the leadership to his son, who was identified less with Suharto and who could 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 had to build connections to a new government, which was not friendly but rather hostile to Salim. With the help of some businessmen from the ethnic Chinese network they were able to deal with the crisis by selling many of their businesses and keeping a few cash cow companies. The crisis forced the Salim Group to abandon its relationship strategy to a certain extent and focus more on businesses independent of 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 led to changes in its management and organisational structure. The leadership responded to this by hiring professional managers and reorganizing its structure in the 1990s. But it seems that the strategy was most influenced by generational changes. Anthony Salim joined the business in the 1970s and slowly took over the leadership after 20 years of guidance by his father. He made attempts to change the direction of the company. 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 made an abrupt end to the slow leadership transition and firmly put Anthony Salim in power. The sudden change cleared the way for difficult decisions during the Asian crisis, under clear and decisive leadership of the second generation.

The institutional environment, highly dependent on Suharto, exercised influence on the group by providing a changing range of opportunities and obligations and a favourable patron. Being part of the inner circle of Suharto, a mutual influencing also occurred, which provided a win-win situation for Salim and Suharto, and to a certain extent for the Indonesian economy. Table 8.4 has shown some of the interactions between Indonesian institutions and the Salim Group. When Salim business went sour, the government stepped in to pick up the bill, the other side of the coin being that when Suharto's family business or foundations suffered, the Salim Group stepped in. Although the two parties were not equal, they certainly influenced each other on many occasions in Indonesian history.

The embrace was such that during the Asian Crisis, Indonesian protesters took 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 under Suharto.

Internationalisation and cut-throat competition became the focal point after the crisis. As the business was now smaller, and managerial attention divided between Indonesia and other Asian countries, the opportunities for shaping the Indonesian institutional context are now less pronounced than before. In many ways, the effects of generational changes within the Salim Group preceded changes in the institutional context. Anthony Salim, with the perspective of a new, Western-educated generation, offered a new vision that better fitted in a global business trend of internationalisation and free markets, while still incorporating the value of personal connections. However, the Salim heir attempted to implement a more market based strategy in times 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 put him in place as the leader of the group.

The Salim Group co-evolved with Indonesian institutions: it was influenced by them, but also influenced them. The coevolution rhythm was irregular, clearly there were periods in history where the Salim Group took a more passive and adaptive role, whereas in other periods it was able to capitalise on its relationships with Suharto and exercise influence on their environment proactively, resulting in favourable policies towards the Group. At the height of their power, the Salim Group not only benefited from Suharto, it also sought to build an independent, international professional business group. This proactive strategy provoked a counterreaction after the demise of the Suharto regime. Precisely because the Salim Group had been in such a position of power in the Indonesian economy, the new government sought to eliminate the Salim Group – a symbol of the old corrupt regime. The Group used proactive and reactive strategies to deal with the post-crisis environment. Eventually, the Salims sought to diversify increasingly away from Indonesia to other Asian countries.

8.5 Summary

Liem Sioe Liong laid the foundations for three strategic elements that are present within the Salim Group till date: 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 as well as being influenced by them. Anthony Salim's vision was to change the group and make it more international and less dependent on Indonesia and on Suharto. He succeeded only partially and slowly while the strategy oscillated between relationship-oriented and market-based. The demise of Suharto, which coincided with an economic crisis, formed 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.

Chapter 9: Conclusions

9.1 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 connected to the theoretical approaches presented in Chapter Two and the themes in Chapter Three. The case is confronted with the culturalist approach, the crony capitalism approach and with institutional theories on emerging market strategy. The chapter ends with conclusions and recommendations for further research.

9.2 Flexibility and Path Dependence

Some culturalist approaches suggest that ethnic Chinese firms are extremely flexible both in terms of adaptability to the environment[395] and in terms of their embedding in an international network rather than in a national context[396]. Several authors therefore speak of "transnational" or "footloose" enterprises[397]. Due to the extensive ethnic network, the ethnic Chinese firm is thought to be "ungrounded" in their 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[398]. 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 if the government started to provide incentives to set up export industries rather than 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

395 See for example Redding (1995) or Limlingan (1986).
396 See for example Lever-Tracey (2001) and Backman (1999)
397 For example Ong and Nonini (1997).
398 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).

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 starting similar businesses producing for the local markets. Although the Salim Group maintained some organisational characteristics that made it flexible and quick to act upon to emerging business opportunities, the basic domestic business model stayed 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 they 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 the doors in the Netherlands during the Second World War and continued business by moving headquarters to the US, the Salim Group was not able or willing to do so. It appeared that rather than being transnational the company was strongly attached to Indonesia. Anthony Salim now wishes to change this dependence on a local context and now invests heavily in other Asian countries. But he still wishes 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 against past experiences and against the institutional context. The relationship with Suharto 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 who were close to Suharto. There was no immediate need to distance the Salim businesses from Suharto while he was still in power, yet the second generation leader claims that this was his goal. 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 it also hindered the need for the Salims to stop being identified with a mortal dictator.

Why would ethnic Chinese companies remain flexible and adaptable and be immune to the same resistance to change that all companies develop over time? The study of the Salim Group shows that they are not. 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. Just like a sailboat can turn more quickly than a large ocean tanker, large ethnic Chinese companies increasingly become unable to implement rapid changes.

9.3 The Evolution of Business Networks

Culturalist theories on ethnic Chinese firms often assume that their leaders prefer to do business with businessmen from their ethnic network[399]. Referring to Confucius' influence on Chinese culture, they assume that building trust among fellow Chinese is much easier than dealing with foreigners. Crony theories on the other hand focus also on relationship-building, but not with fellow Chinese immigrants but with politicians. The alliance is argued to provide a win-win between the business skills of the Chinese and the corrupt distributors of rents within the Indonesian government[400].

The Salim Group engages in many business ventures with one or more partners over time. In the very beginning of the Salim Group Liem Sioe Liong benefited from contacts with other ethnic Chinese immigrants and family members. But as soon as he had built a substantial business, he laid contacts with a variety of partners. On the one hand he kept the contacts with ethnic Chinese partners such as the Djuhar family and the Riady family. But soon after Sukarno assumed power he established relationships beyond 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 after, it widened its group of partners to foreign firms that provided knowledge, technology and capital.

[399] See for example Backman (1999).
[400] See for example Robison (1986) or Yoshihara (1989).

The quantitative analysis of all Salim Group business events of the last 20 years shows clearly that the group maintained different types of partnerships, namely ethnic Chinese partners, political partners and foreign partners. Of these, the latter, foreign partners, came to be most important for the Salim Group, in number more important than the other two types together.

This study clearly demonstrates the shortcomings of the culturalist as well as the crony approach in explaining ethnic Chinese networking styles. Although this research supports both because ethnic and political connections matter, it also demonstrates the shortcomings, because these theories overlook that the most frequent and most important network ties occur with Western or Japanese companies. If one studies network ties in 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 less so when it evolves.

Following the previously mentioned classification of social capital into bonding capital (with the own social group) and bridging capital (across social strata)[401], we can conclude that the Salim Group consciously used both bonding capital with ethnic Chinese, but also bridging capital with political leaders as well as multinational firms. Given the hostile context the Group operated in, its success lay perhaps exactly in this ability to create social capital of various kinds.

9.4 Diversification and Social Capital

Traditional theories of diversification often make use of the term economies of scope to explain why it may be sensible to combine diverse businesses under one umbrella[402]. The reason is that some production inputs may be sharable and therefore beneficial to more than one line of business. The institutional context is also argued to make a difference: if institutions are weak there may be even more advantages to combining different economic activities in one firm or one business group[403].

While other reasons for diversification also exist, the study of the Salim Group shows how relationships with Suharto or with other ethnic Chinese firms stimulated the group to diversify, eventually resulting in a web of different businesses with different partners. Requests from the government of from partners have often stimulated the Salim Group to start ventures in

[401] Developed by Putnam (2000) and Adler and Kwon (2002).
[402] See Panzar and Willig (1981).
[403] See Khanna and Palepu (1997, 1999).

new industries. Therefore, next to classical economies of scope and institutional factors, one could argue that social capital can also stimulate diversification. I propose to 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 both broader and more precise than that of corruption and cronyism. The latter are necessarily illegal and associated with private gains by bureaucrats, whereas diversification resulting from connections is not.

The Salim Group clearly went through different phases in which both economies of scope and economies of connectedness played a different role. In the early stages, the Chinese connections allowed a poor immigrant to rapidly establish himself in business. Thereafter, the connections with the army, and particularly with Suharto and his family, are what 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 enter 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 also through more traditional business contacts with foreign groups, some of them technology partners in Indonesian businesses.

From 1985 until the Asian Crisis in 1997 diversification was increasingly driven by 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 the vertical and horizontal integration. Transactions with others, such as suppliers or buyers were expensive because of the uncertain and corrupt environment and because of poor law enforcement. As a consequence of this it became cheaper to trade within the group than with market parties outside. In other words, as transactions costs were high in Indonesia, it made sense to have all services available within the group rather than deal with an unpredictable partner.

The influence of political and Chinese connections diminishes, although it does not disappear. During the crisis and its immediate aftermath the Group becomes less diversified, the political connections diminish significantly, and the Chinese network is relevant only as a source of potential buyers for businesses that have 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.

9.5 Strategy Evolution and Generational Change

Whereas institutional theories assume that the main reason for a company to change its strategy is to adapt to changes in the business environment[404], family business literature points at the importance of generation change for explaining an emerging new direction[405]. Family businesses can be considered as an extension of the psychological interplay between members of a family.

During the history of the Group, Liem Sioe Liong had different ideas for the business than his son Anthony Salim. One is a poor immigrant from the hinterland of China, without much education and probably limited skills for evolving within sophisticated internationally-oriented elite. The other is a well-bred international tycoon, rooted in his country of birth even if some cultural affinity to China remains. One started his business career in the late 30s in a remote provincial town of the Dutch Empire and climbed up the social ladder until he reached the stratosphere. The other was born to wealth and privilege in a proud powerful country and received an international upbringing. Undoubtedly, the son lavishes on his father a well deserved respect, reinforced by the traditional Chinese veneration of the elder, but he also must long with every fibre in his body to bring the family business into 'modernity' and to acquire, if not for him then at least for his heirs, respectability and social acceptance, very much like the evolution of the Vanderbilts or the Rockefellers from the status of robber-barons to that of great American families.

In this study it becomes clear that Anthony Salim initiated some changes that slowly resulted in a new strategy. In the period after he entered the business, it started to internationalise and professionalize. Yet this change was rather slow and incomplete as it ran against developments in the business context. Only after the crisis was this strategic direction implemented more fully. This study shows that not only institutional changes matter, but also generational changes can lead to a strategic change, which may in turn be slowed down by institutional factors.

9.6 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 developing market multinationals in a stage perspective. They suggest that in weak institutional environments

[404] See for example Peng (2003).
[405] See for example Chrisman et al. (2005).

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 display less relationship-based strategies and move instead to a market-based orientation with weaker network ties[406]. 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, showing instead frequent set-backs to protectionism and cronyism in Indonesia.

Liem Sioe Liong may be considered to represent the relationship-based model while Anthony Salim represents the market model. The second generation leaders do not necessarily continue the same networks their parents built, and may have a preference for new types of partners. Liem built strong ethnic Chinese and political networks, while Anthony Salim seems to prefer choosing 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 the opposite, corporate strategy changes anticipating institutional change, is also possible. As the study has also demonstrated, the Indonesian institutions did not modernize over time. At the end of the Suharto regime and after the crisis, crony networks interfered with open market approaches and provided set-backs. 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. As Indonesia after the crisis has decreased its cronyism and protectionism, the Salim Group simultaneously has implemented a more market-based strategy. The new strategy after the crisis brings 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 rather than sequential, the Salim Group has simultaneously built both market and relationship-based competencies, and it is able to operate in both contexts. Depending on the context, the group seems to oscillate between the two strategic orientations, rather than

[406] For example Peng (2003).

focusing on one of them. Over time however, the trend shows a propensity towards market-based orientation.

The two strategic models – the relationship-orientation and the market-based strategy- can be perceived as opposite poles on a continuum, representing pure types. Individual business-decisions are seldom pure, exhibiting a mixture of both modes. Indeed, the phenomenal success of the group – at its height the largest group in Southeast Asia - is undoubtedly due in large part to the "lucky coincidence" of Liem hooking up with an obscure army officer that eventually became for thirty years the strongman of a gigantic country. But without significant managerial competence, of the highest calibre according to widely held opinion, the Group could not have handled the challenges of growth and increased environmental and technological complexity. As the Salim Group switches between demands and opportunities of its network and its perception of the market, its managers build competences associated with the relationship-based as well as market-based models. The scale and available capital as a result of the relationship-based businesses has allowed 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 fully departed from a relationship-based way of doing business completely, but the dependence from the domestic context was mitigated by increased foreign investments. The more a company moves towards one of the opposites, the higher the pressure to move in the opposite direction. Increased dependence on Suharto carries a high risk for the business should he loose his position. Increased market-based strategies without adaptation to the leadership's personal and political wishes may similarly carry a high risk. Alternating between these models, at times so quickly that the impression is the simultaneous pursuit of both, allows the Salim Group to be successful.

This study therefore supports the idea that emerging market companies may have to choose between the importance of network ties and market-based competition, and that over time the latter prevails. But the 'route' that an emerging market company takes is not linear. Depending on the demands of the environment and internal capacities, the company may shift its orientation continuously. The evolution of strategy appears to be irregular.

9.7 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 market based environment with many competing players[407]. The study of the Salim Group gives rise to three important observations. First, despite a highly interventionist (sometimes called institutionalised) environment in Indonesia until the Asian Crisis, characterised by patrimonial relationships and centralised political power, competition among firms still took place, but it was competition for Suharto's favours. In the case of the Salim Group we see a relatively modest firm arise as the key domestic player, a development that resulted from good interpersonal relations with Suharto, but surely also because of a 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 conditions of market-based competition[408]. The unique access to credit and the relative protection from market forces allowed the Salim Group to become an industrial as well as 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 do see that the strategic direction of the Salim Group is simultaneously restricted as their crony partners directed company 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 institutions such as laws and exclusive licenses. Third, by building a strong resource base, the profitable Suharto-alliance provided the financial freedom to diversify away from the domestic institutional environment into Hong Kong, 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 that were associated with Suharto. This focus, which is valid until today, may indicate that the Salim Group resources did enable them to take new strategic directions, but due to past or present successes of old strategies, or perhaps outside pressure, their internationalisation remained partial. Whereas in several respects historic events limited the flexibility of the Salim Group, its immersion in a variety of networks, in particular political, provided the Group with a high level of strategic choice.

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[407] See for example Oliver (1991).

[408] 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.

9.8 Corporate and Institutional Alignment

Most coevolution research, as well as institutional research, implicitly assumes a clear division between the firm and its institutional environment. Research on big business in developmental states however indicates how corporate players may be able influence politicians by building crony roles, thus effectively creating a grey zone between the corporate sector and the government[409]. The case of the Salim Group also shows that the clear distinction between company and institutions may not be justified. The institutional context in Indonesia for a period of three decades was characterised by a strong, long-time dictator who could (and did) personally influence 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[410]. In addition to this peculiar institutional context that was so dependent on a single person, we observe an economy with one extremely large domestic business player, which has its 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.

In the case of the Salim Group not only were corporate and institutional environment centralised and represented by two strong personalities (Liem and Suharto), they were also able to develop a close and long-term relationship, witnessed in their frequent meetings and the favourable policies that were implemented to stimulate the Salim Group profits. The alignment between Suharto and Liem played a role on many levels: economic, personal and business. It was characterised by a mutual understanding of give and take. The distinction between 'opportunity' and 'obligation' is therefore 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 Schwartz: 'Liem's empire straddles the line between private enterprise and government like no other Indonesian organisation'[411]. The Salim Group became a symbol of the Suharto regime.

[409] See for example Kang (2002); Lee (2000) and Park (2002).
[410] For example in the South China Morning Post (1998).
[411] See Schwartz (2004, p. 112).

The symbol 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 materialisation of the alignment of the Suharto and Salim family. But here too, the generational change played a role. Liem wisely withdrew when 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 of large corporate entities morphing into institutions themselves under conditions of strong corporate and institutional alignment.

9.9 Theoretical Implications

This study strongly suggests that the culturalist approach to ethnic Chinese firms cannot explain the present-day development of the Salim Group. The Salim Group has clearly outgrown the small one-product family firm with a simple structure. Its history and size provides 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 if the environment changed. Rather than focusing on ethnic Chinese partners it has broadened its network with political connections and foreign partners, thus availing 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 for 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. It even became a symbol of the Suharto government, 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. Not only the institutional context matters for a diversified strategy, social capital increased diversification. In weak institutional settings, economies of connectedness may spur more diversification, in addition to classical economies of scope.

The coevolutionary perspective led to important insights in this study. Time series analysis showed how strategy was not linear but oscillatory, as it was influenced by institutional and generational changes. The Salim Group became so large that it consciously influenced the Suharto government, but was also heavily influenced by it, giving rise to patterns of mutual responses between Salim Group and Indonesian institutions.

How Chinese are ethnic Chinesefamily business groups when it comes to strategy? This study shows that the Salim Group is not "very Chinese". It is obvious that every company develops in a unique way, and is shaped by its management and environment. But having said this, there is little reason to assume that "being Chinese" has had a large influence on the recent Salim Group strategy which set it apart from 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 understand whether the outcomes of this study apply to the Salim Group only, or whether they represent strategy patterns that are common in other ethnic Chinese family business groups.

Annex 1. Annual Reports

Annual Reports used in this study

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 the author and used for this thesis. 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).

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

* Annual Reports were available from the year that the company was listed on the stock exchange onward.
** QAF changed its accounting cycle in 1996 towards a book year from January to December. Hence two annual reports appeared in 1996 and none in 1995.

Annex 2: Media Resources

In this study media sources were an important type of information, in particular newspapers. During the period 2001-2005 an archive of news on the Salim Group was created encompassing thousands of articles. This archive was built up in the following ways (in order of importance):

- Structured searches in Lexis Nexis covering all major international English language newspapers. The searches were carried out using as keywords all company names known to be part of the Salim Group. If the keyword resulted in more hits than the system could handle (>1000), the limiters 'salim' and/or 'liem' were used. If there were still more hits than the system could handle, the searchers were broken down into shorter periods.
- A search in the Center for Strategic and International Studies (CSIS) library in Jakarta (carried out by the library staff) resulting in an archive of news clippings from local newspapers and business magazines, partly in Bahasa Indonesia.
- Internet searches with keywords Salim, also covering articles in magazines and specialised press.
- A database of articles on the Salim Group obtained from a journalist in Jakarta

The table below gives the number of articles reviewed from the largest source: the lexis nexis database.

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

Annex 3: Interviews

Interview Database

For this study 56 interviews were carried out with in total 40 respondents. For each interview a summary was made and interviews with Anthony Salim were recorded and transcribed. The respondents were: Salim managers, academic experts (on Indonesian management, Indonesian economy and ethnic Chinese in Indonesia), executives of the Indonesian Bank Restructuring Agency (IBRA), cabinet members, financial analysts, journalists, partners, competitors, and other stakeholders which includes two advisors to the Salim Group, and an economic advisor to the Indonesian government.

The table below gives a breakdown of the number respondents and interviews in each category.

Category	Description	Respondents	Interviews
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
9	Other	5	6
Total		**40**	**56**

All interviews took place in 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 interviews was carried out with employees of IBRA, particularly those employees that handled the assets of the Salim Group 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 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.

Annex 4: Coding Protocol

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 (explained in Chapter Three). The coding protocol below gives for each code a title, definition, description, and examples or exclusions, altogether these form the codebook for this study.

Business Events

Prior to coding the data, the sources are organised into business events that could not be plotted on a timeline. A new business event was anything of importance outside continuing existing business. Examples of business events included the expansion of 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. Sometimes a new business event did not have a clear time or evolved over a longer time period. In this case the researcher made a note on this and chose the most appropriate time keeping in mind the actual implementation of the business event. For example, when a new business deal was signed and announced, it was usually preceded by rumors in the market; lengthy negotiations before a deal had been signed or committed, which could take years. In such cases the actual announcement or signing should be taken as the date.

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: former top Salim executive becomes CEO of another ethnic Chinese company (since it is not clear that this is a Salim Group initiative, it could be a personal step by the 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 with a member of the Suharto family. Indofood receives special license to expand production, even if this is 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 intransparent process; First Pacific Co. is charged with corruption around Philippines election funds. Reports of connections should be in multiple sources to avoid relying on rumours. Excluded are one-time rumours of connections.
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)

Annex 5: Overview of Salim Group Companies

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Abadi Musyawarah Perkasa PT		X	X			
Abhipraya Insan Perkasa PT		X				
Adhi Dinakara PT		X	X			
Adi Langgeng Kencanatex						X
Adi Prasudi PT		X	X			
Adithya Suramitra						X
Adiwarna Busana Textile PT			X			
Agrapura PT			X			
Agung Utama Permai PT		X	X			
Agung Utama PT	X					
Albright & Wilson						X
Allbest PT		X				
Almira United Timber Corp. PT			X			
Alpha Arcadia PT			X			
Alpha Morindo PT			X			
Alpha Tanjung Tanki Indonesia PT		X				
Alsthomindo PT		X	X			
Altron Niagatama Nusa					X	
Aneka Gelas Elok PT		X	X			
Aneka Karton Elok PT		X	X			
Aneka Kreasi						X
Anggada Perkasa PT		X				
Antelope Madju PT		X				
Anug(e)rah Primatama Agung PT		X	X			
Apindo Prima Karya PT		X	X			
AR Packaging (Philippines)						X
Arcom Primantara System PT			X			
Arcom System International PT			X			
Argha Giri Perkasa PT		X				

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Argha Indah Pratama PT		X	X			
Argha Karya Prima Industry PT			X			
Argha Molek Kencana PT		X				
Aribhawana Utama PT		X	X			
Arimono PT	X					
Ariobimo Agratama Perkasa PT		X				
Ariobimo Estate Perkasa					X	
Arta Pusara PT		X				
Arta Sinar Mas PT		X				
Artek Inti Persada					X	
Artha Nugraha Mandiri					X	
Arya Andalan Aging PT		X				
Asia Link						X
Asia Nusantara PT	X					
Asia Pacific Infrastructure						X
Asia Perintis Contindo					X	X
Aspirasi Luhir					X	X
Astenia PT		X				
Asuransi Aioi Indonesia					X	
Asuransi Central Asia	X	X	X		X	X
Asuransi Chiyoda Indonesia					X	
Asuransi Jiwa Central Asia Raya	X		X			X
Asuransi Marga Pusaka PT			X			
Asuransi Purwanjasa PT			X			
Australia Indonesian Milk Industries (Indomilk)		X	X			X
Awit Melinda Oils Inds. PT			X			
Baja Perkasa Indah PT		X	X			
Bali Dynasty Resort						X
Bank Central Asia	X	X	X	X		
Bank LTCB Central Asia				X	X	
Bank Risjad Salim Internasional				X	X	
Bank Umum Asia			X			

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Bank Windu Kencana	X		X			
Barasentosa Lestari						X
Barney Foods International						X
Batamas Megah						X
Batamindo Industrial Estate PT				X		X
Batamindo Investment Corporation					X	
BCA Bank Europe					X	
Berdikari Flour Mills PT		X				
Berdikari Sari Utama Flour Mills						X
Berli Jucker (Thailand) Co. Ltd.		X		X		X
Berli Jucker Industries (The Philippines)		X				
Bersama Sejahtera Sakti						X
Besindo Jaya Perdana PT		X				
Besindo Mulia Perkasa PT		X				
Besland Pertiwi						X
Bhakti Bersama Sejahtera PT		X	X			
Bhakti Sarana Ventura						X
Bimoli PT		X	X			
Bina Sains Corporation						X
Bina Sumber Kurnia PT			X			
Binara Guna Meditama PT		X				
Binatara Gunameiktama PT			X			
Bintan Beach International Resort						X
Bintan Industrial Estate				X		X
Bintan Lagoon Resort					X	
Birina Multidaya						X
Bogasari Flour Mills PT	X	X	X			
Bojong Indah Permai PT		X	X			
Bootindo Adikreasi PT		X				
Branta Mulia PT		X	X			
Brierley						X
Brightsun Development					X	
Buana Chemica Arta PT		X				

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Buana Distrindo						X
Budhi Agung PT	X					
Budi Agung Wibawa			X		X	
Bukit Cinere Indah PT		X	X			
Bumi Sari Mulia PT			X			
Bumi Serpong Damai					X	
Bumi Shangrila Jaya PT		X				
Cahaya Aneka Kimia Perkasa PT			X			
Cahaya Inti Perkasa PT		X	X			
Cahaya Tugu Kencana PT	X	X	X			
Cakra Alam Makmur PT		X				
Camerlin						X
Caprindo Perdana PT		X				
Caraka Indah PT			X			
Carakapangan Sejati						X
Ce Grayvetco Indonesia PT		X				
Cellox Paper Co						X
Cemako Mandiri Corporation						X
Central Antar Jasa PT	X	X	X			
Central Asia Capital Corporation Ltd.		X				
Central Dharma Motors PT		X	X			
Central Investment PT		X				
Central Makmur Corporation PT		X				
Central Pacific Development PT		X	X			
Central Paramerta PT			X			
Central Rejeki Corporation PT		X				
Central Salim Builders PT	X					
Central Salim International Builders		X	X			
Central Sari Finance						X
Central Sari Int. Builders PT	X					
Central Sari Medical Supplies PT		X	X		X	
Central Sari Metropolitan Leasing Corp. PT		X	X			
Central Sole Agency PT	X	X	X		X	

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Central Sumahi Motor PT		X				
Central Sumber Makmur PT		X				
Central Super Motor Corp. PT			X			
Central Tilam Sari Makmur PT		X	X			
Central Tirta PT		X	X			
Cereko Reksa Corporation						X
Chandra Mulia Permai PT		X				
Chemco Graha Sejahtera Indonesia PT		X				
Chemphil						X
Chung Tai Home Appliance Centre PT		X				
Cibinong Center Industrial Estate						X
Citra Caraka						X
Citra Marga Nusapala Persada PT		X				X
Citra Paramita Sejati PT		X				
Cold Rolling Mill Indonesia Utama PT		X	X			
Colvex Jaya PT		X				
Continental Land Development					X	
Cranetama Maju PT		X				
Culindo Livestock					X	
Dai-Ichi Pacific Securities PT (HK) Ltd.		X				
Daikin Clutch Indonesia PT			X			
Danar Kencana Industry PT		X				
Darya-Varia Laboratoria PT				X		
De United Food Ltd Nigeria						X
Dean & Deluca Brand Inc. PT		X				
Delham						X
Delia Karsa Taruna PT		X				
Dharma Raya Kencana PT			X			
Dharmika Agung PT		X	X			
Digion Mega Pratama PT		X				
Distinct Indonesia Cement Enterprise PT	X					
Dono Indah PT	X	X				
Dono Indah Timber PT			X			

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Dragon Seed Company LTd PT		X				
Duta Rendra Mulia PT		X				
Ecogreen Oleochemicals pte ltd Singapore						X
Elders Australia					X	
Eltra Chemical Swasembada PT		X				
Enchylaena					X	
Ever Green (Holding) Ltd.		X				
Excella Trading Limited						X
Export Finance Company (UK) Ltd.		X				
F.P. Special Assets (Hong Kong) Ltd.		X				
F.P.C. Holding (Netherlands Antillies) NV		X				
Fajar Ansana Utama			X			
Fajarsemesta Ciptamurni						X
Fakol Ekatama Industries PT		X				
Fastfood Indonesia					X	X
Fatex Tori PT			X			
Fertilindo Soil Pertiwi PT		X				
Filma PT		X	X			
Filma Utama Soap PT			X			
Filtro Prima Industri PT		X				
Finsytex PT		X	X			
First Indonesia Latex Industry PT		X				
First Pacific (UK) Trade Services		X				
First Pacific (USA) Corporation		X				
First Pacific Bank				X		
First Pacific China Trade (PR China) Ltd.		X				
First Pacific Co				X	X	
First Pacific Davies				X		
First Pacific Davies (Singapore) Pte Ltd.		X				
First Pacific Davies (Thailand) Ltd.		X				
First Pacific Davies Property Ltd.		X				
First Pacific Enterprises (Liberia) Ltd.		X				
First Pacific Finance (HK) Ltd.		X				

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
First Pacific Fund Management (HK) Ltd.		X				
First Pacific International					X	
First Pacific International (HK) Ltd.		X				
First Pacific Investment (Liberia) Ltd.		X				
First Pacific Metro Corporation of the Philippines		X				
First Pacific Networks		X				
First Pacific Securities (HK) Ltd.		X				
First Pacific Securities (Liberia) Ltd.		X				
First Pacific Securities (Thailand) Ltd.		X				
First Polyester Prima Industri PT		X	X			
First Realty International Corp. PT			X			
Formula Pertiside Perdana PT		X				
Fosfindo						X
Frolic Pacific Development					X	
Frolic Pacific International					X	
Futuris					X	
Galior International						X
Gelael Supermarket					X	X
Gelora Muda Perkasa PT		X	X			
Giwang Selogam PT		X	X			
Gizindo Primanusantara					X	
Glutama Indorasa PT		X				
Golden Sari Commodities					X	
Graha Aspirasi Makmur PT			X			
Graha Deltracitra					X	
Gray Indonesia PT		X				
Green Island Cement Corporation (HK) Ltd.		X				
Green Land PT	X					
Guangdong Jiangmen Float Glass						X
Guaranty Bank of California						X
Gula Polindo Makmur PT		X				
Gula Putih Mataram		X			X	X

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Gunung Salak Permai PT		X	X			
Hagemeyer NV		X		X		
Hanurata PT	X					
Harapan Mobil Nusantara PT	X					
Hasta Buana Mandiri PT		X				
Hasta Dharma Karya					X	
Henkel Indonesia PT		X	X			
Hercules Mas Indonesia PT		X				
Hibernia (USA) Corporation		X				
Himalaya Agung PT			X			
Hino Indonesia Mfg PT			X			
Holland Pacific (Netherlands Antillies) NV		X				
Holland Pacific (Netherlands) NV		X				
Holland Pacific Paper						X
Hotel Kartika Chandra						X
Indaco Ltd.	X					
Indah Kencana PT	X					
Indara Mas PT	X					
Indo Graha Pramana PT		X				
Indo Jaya Corporation PT		X				
Indo Jaya Markonrad PT		X				
Indo Kemika Jayatama					X	
Indo Mobil Niaga International PT		X	X			
Indo Mobil Utama PT	X	X	X			
Indo Sahid Perdana PT		X				
Indo VDO Instruments					X	
Indobunge Feedmill						X
Indocement Singapore (Pte) Ltd.		X			X	
Indocement Tunggal Prakarsa PT		X	X	X		
Indochlor Prakarsa Industries PT		X				X
Indocitra Buana					X	
Indofood Frito-Lay Corporation					X	
Indofood Interna Corp. PT			X			

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Indofood Interna Corporation					X	
Indofood Sukses Makmur				X	X	
Indographica Ekakarsa					X	
Indogrosir						X
Indohero Steel & Engineering	X	X	X		X	
Indojaya Markonrad PT			X			
Indokarma Utama PT			X			
Indokemika Jayatama						X
Indolakto					X	X
Indolampung Perkasa						X
Indomarco Adi Prima PT				X		X
Indomarco Perdana PT/ Indomaret		X				X
Indomas Harapan Kreasi PT		X				
Indomatsumoto Press & Dies					X	
Indomeji Dairy Food					X	
Indomiwon Citra Inti						X
Indomix Batam Pura PT		X				
Indomobil Investment Co				X	X	
Indomobil Prima Trada					X	
Indomobil Utama					X	
Indomulti Inti Industri				X	X	
Indonesia Cement PT	X					
Indonesia First Synthetic Rubber PT		X				
Indonesia Mas Anggun PT		X				
Indopen Perdana PT			X			
Indopoly Swakarsa Industry PT				X	X	X
Indopropertama Nusapersada						X
Indosahid Perdana						X
Indosepamas Anggun					X	
Indosiar Visual Mandiri				X		
Indosurance Brokers Ltd. PT			X			
Indo-Suzuki Manufacturing PT		X				
Indo-Swedish Motor Assembly Co. PT		X				

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Indoswiss PT		X				
Indotirta Suaka						X
Indotracosakti Sempurna					X	X
Indotruba Tengah						X
Indotruck Utama PT		X			X	
Intercallin PT			X			
International Good Housekeeping Inc.		X				
Intersuisse (Australia) Ltd.		X				
Inti Ganda Perdana PT		X				
Inti Indorayon Utama PT		X				
Inti Indosawit Corporation						X
Inti Indosawit Subur						X
Inti Jaram Pura PT		X	X			
Inti Prebon Moneybrokers					X	X
Inti Salim Corpora		X			X	X
Inti Same PT		X	X			
Inti Sawit Andhika PT		X				
Inti Sawit Semerlang PT		X				
Intiboga Sejahtera						X
Intikom Berlian Mustika					X	X
Intindo Wahana Gemilang PT		X				
Ismac PT			X			
Ismac Volvo					X	
Istana Mutiara Mas PT		X	X			
Ivo Mas Tunggal PT		X	X			
Jakarta Land PT	X	X	X			
Jangkar Sakti PT			X			
Jaya Bali PT	X					
Jaya Mandarin Agung PT	X	X				
Jaya Sumpiles PT		X				
Kabale Indonesia PT		X	X			
Kabele Asia Nusantara PT	X					
Kalamur Group						X

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Kalticon Jaya PT			X			
Kaolin Indah Utama PT		X	X			X
Karimun Granite						X
Kartika Inti Mas PT		X				
Karya Teguh Sari PT			X			
Kayu Lapis Asli Murni	X		X		X	
Kemakmuran Taniterna Indonesia PT		X				
Kentucky Fried Chicken (Indonesia)						X
Keris Mas Sukses PT		X	X			
Keris Mas Witikco Makmur					X	
KerisMas Witikco Makmur				X	X	X
Kerta Anugerah Utama PT		X	X			
Kerta Wijaksana PT		X	X			
Kimpaper Indonesia PT		X				
Kimsari Paper Indonesia			X			
Kirana Golden Manufacturing PT		X	X			
Kitadin						X
KMP					X	
Koplindo Citra Nusantara PT		X				
Kosmo Poultry						X
Kota Bukit Indah Industrial Estate						X
Krakatau Baja Permata PT		X				
Krakatau Cold Rolling Mill PT	X					
Krida Sarana Tunggal PT		X				
Kunci Mas Wijaya PT		X	X			
Langgeng Muara Makmur						X
Leamaat Omikron						X
Lentera Inti Mas PT		X	X			
Lion Superindo						X
Majapahit Agro Industrial / Industri						X
Mandara Medika Utama						X
Mandara Permai		X	X		X	
Mandiri Dipta Makmur						X

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Manggada Nusantara Lines PT		X				
Marga PT		X				
Marga Tulus Enterprises PT			X			
Marison Nusantara Agencies		X	X		X	
Marya Dunia Makmur PT Perusahaan Bongkar Muat		X				
Mazda Indonesia Manufacturing PT		X				
Mega Perkasa PT			X			
Mega Pratama Citra PT		X	X			
Mega PT	X	X	X			
Megah Utama Motor PT		X				
Mekar Perkasa PT		X				
Melapi Timber		X			X	
Menara Kaloka						X
Methylindo Usaha Mitra PT		X				
Metro Bottled Water Corporation						X
Metro Drug Corporation of the Philippines		X				
Metro Drug Distribution						X
Metro Marketing						X
Metro Pacific				X		
Metro Pacific Pharma						X
Metrolab Industries						X
Metropolitan Development PT	X	X				X
Metropolitan Inter Asia PT		X				
Metropolitan Kencana PT	X	X	X		X	
Metropolitan Leasing	X					
Metrovet						X
Minamas Eramustika						X
Mitra Kreasidharma					X	
Mitra Rajasa PT		X				
Mulia Baruna Perkasa PT		X				
Mulia Primatama Agung PT		X	X			
Muljotex PT		X				

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Multi Guna Agung PT		X	X			
Multi Kimia Sejahtera Abadi PT		X				
Multi National Finance Coroporation PT		X				
Multi Nugraha Sejahtera PT		X				
Multi Raya Ekatama PT		X				
Multi Trade (Netherlands) NV		X				
Multicor PT			X	X		
Multicor Securities						X
Multifinance Corporation PT	X					
Mulyatex	X		X		X	
Mulyoredjo PT		X				
Musyawara Cipta Suara PT		X	X			
Mutiara Bianglala						X
Nalco Perkasa PT		X	X			
National Assemblers PT		X	X			
National Motor PT	X	X	X			X
Nawa Panduta PT		X	X			
Nayaka Wiarwan PT		X				
New Green Land PT		X	X			
Niagatama Tunggal Abadi PT		X	X			
Nikko Securities Indonesia						X
Nongsa Indah Golf and Country Club PT		X				
Nugraha Kencana Jaya PT	X	X	X			
Nuruda Lines PT		X				
Nusantara Jaua Santosa PT		X				
Nutricia Indonesia Sejahtera						X
Oceanic(s) Timber Products PT		X	X			
Oetomo Kencana PT			X			
Oigicon Mega Pratama PT			X			
Okta Patria						X
Ola Rotan Perdana PT		X				
Opak Daya PT		X	X			
Overseas Timber Products Corporation PT	X					

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Pabapan PT			X			
Pabrik Obat Dupa						X
Pacific Cad-Cam		X				
Pacific Flour & Food				X		
Pacific Indomas Plastic Indonesia PT		X		X		X
Pacific Link				X		X
Pakuwon Utama Real Estate PT			X			
Pama Indo Kodeko / Pama Indo Mining						X
Pan Asia Express Line PT		X				
Panca Mita Bahana PT		X				
Pancatex PT Patal		X				
Pangan Sari Utama PT	X					
Patal Pancatex PT			X			
Peaktop International Holding					X	
Pebapan PT		X				X
Pelita Asia Permai			X			
Peng Indonesia Perkasa PT		X				
Pepsicola Indobeverages PT						X
Perkasa Ansana Abadi Indonesia Cement Enterprise PT		X	X			
Perkasa Branta Mulia PT			X			
Perkasa Cement PT	X					
Perkasa Indah Cement Putih PT	X					
Perkasa Inti Abadi Cement PT	X					
Perkasa Krida Harta Indonesia Cement Enterprise PT		X	X			
Perkasa Sembada Karya Indonesia Cement Enterprise		X	X			
Perkembangan Ekonomi Indonesia PT		X				
Permanent	X				X	
Perniagaan Indonesia PT		X				
Persada Murni PT		X	X			
Pertiwi Agung Prawira PT Asuransi		X				
Perwick Agung PT	X					

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Pestisindo Ampuh PT		X				
Petra Nada Kencana PT		X				
Petrokimia Gresik						X
Pinehill Arabia Food						X
Pipa Perkasa Indonesia PT		X	X			
PIPI Dow Chemical						X
Plaza Surabaya						X
Polymax International						X
Pondok Indah Estate				X		
Pondok Indah Kapuk				X		
Pondok Indah Mall						X
Pondok Indah Padang Golf PT		X				
Pradja Farma Hoslab						X
Praja Puri Indah Industrial & Real Estate PT		X				
Prima Aneka Berjaya					X	X
Prima Inti Perkasa					X	
Prima Latex Widitama PT		X				
Primacom Interbuana					X	X
Private Dvt Finance Co. of Indonesia PT		X				
Puncak Kreasi Makmur PT		X				
Puri Indah Mall						X
Purna Ansana Motor PT		X				
Putera Paramarta PT			X			
Putramas Prima Perkasa PT		X				
Putri Daya Usahatama						X
QAF				X		
R.S. Resources International						X
Rabana Wahana Consorindo PT		X				
Radisson Hotels						X
Reksa Artha Mustika PT		X				
Rexford Pratama		X			X	
RFM Indofood Philippines						X
Rimba Kencana PT	X					

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Rimba Tunggal Perkasa PT		X				
Rintis Sejahtera						X
Roda Maju Utama						X
Roga Megah Cement PT			X			
Rosco					X	
Rubber Refineries	X					
Sajang Heulang						X
Saks International (US) Inc.		X				
Salim Chemicals Corpora						X
Salim Djaja Motor Co. PT			X			
Salim Economic Development PT		X	X			
Salim Indoplantations						X
Salim Jaya PT	X					
Salim Rengo Containers						X
Sangkala Persada Sakti PT		X				
Sanmaru Food Manufacturer Co. Ltd. PT		X	X		X	
Sarana Adiniagatama PT		X				
Sarana Besindo Sejati PT		X	X			
Sarana Petrogip Perkakas PT			X			
Sarana Sul(m)sel Ventura						X
Sari Arcadia Food Service PT			X			
Sari Dual Offshore PT		X	X			
Sarida Oil PT		X	X			
Sarida Perkasa PT		X	X			
Sarida Utama PT		X	X			
Sarimi Asli Jaya PT			X			
Sarotama Prima Perkasa PT		X				
Sarpindo Soybean Industry PT		X	X		X	X
Satya Yudha Graha PT		X				
Sawit Bintan Perkasa PT		X				
Sawit Malinda PT		X				X
Sayang Heulang PT		X	X			
Sayap Mas Utama						X

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Scott Paper Phlippines (Philippines) Inc.		X				
Sedona International Hotel Manado						X
Segarindo Gizi PT		X				
Segaten Jaya PT			X			
Semarang Makmur					X	
Sembada Kriya Prima PT		X				
Semen Tiga Roda Prasetya PT		X	X			X
Semesta Rasa Foods						X
Sempurna Caturguna						X
Serasi Niaga Sakti PT			X			
Serasi Tunggal Karya PT		X	X			
Serikat Putra PT		X				
Serting Mewah Berhad						X
Shangri-La Hotel (Hong Kong) Corporation		X				
Sibatex Abadi						X
Sinar Culindo Perkasa PT			X			
Sinar Fajar Mardika PT		X				
Sinar Kencana Inti Perkasa PT		X				
Sinar Kencana Tata Mandiri						X
Sinar Kilat Buana PT		X	X			
Sinar Mas Inti Perkasa PT		X			X	
Sinar Mas Wijaya PT			X			
Sinar Plataco PT				X		X
Sinaro Obor Mas PT		X	X			
Singapore Pacific Mgt					X	
Smart Communications						X
Southlinks Country Club						X
Sriwijaya Pakuan Sejati PT		X				
Stainless Steel Rolling Mill Indonesia PT		X	X			
Standard Toto Polymer PT				X		X
Stearindo Upaya Perdana PT		X				
Steniel Manufacturing Corporation (Philippines)						X

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Stillwater Shipping Co.						X
Storek Bima Raya PT		X				
Subentra PT		X	X			
Sulfindo Adi Usaha PT		X		X		X
Sumber Inti Batumas PT		X				
Sumber Polindo PT			X			
Sumiden Serasi Wire PT				X		X
Sumisari Manufacturing PT		X	X			
Suryapangan Indonusa						X
Suzjindo Sehat Sempurna PT		X				
Suzuki Engine Industries PT			X			
Suzuki Engine Indonesia PT		X				
Suzuki Indonesia Manufacturing PT		X	X			
Swadaya Bhakti Negara PT		X	X			
Swadharma Indotama PT		X				X
Swasthi Parama Mulya PT		X				
Sweet Indolampung						X
Swensen Ice Cream						X
Tamaco Graha Krida						X
Tanduai Distrillery Inc. The Philippines		X				
Tangki Sawit Terminal Jasatama PT		X				
Tapian Nadenggan PT		X				
Tarumatex PT	X	X	X			X
Tasik Madu Shipping PT		X	X			
Tatajabar Sejahtera						X
Telelink						X
Teratai Soedono PT		X				
Thai Glass Industries						X
Tiengchu Indah Ve-Trin (HK) Indonesia		X				
Tirta Ansana Raya PT		X				
Tokyu Supermarkets					X	
Total Bangun Persada PT		X	X		X	
Total Daya Cipta PT			X			

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Tri Dharma Karya PT			X			
Tri Dharma Sakti Indah PT		X				
Tri Manggada Nusantara L. PT			X			
Tri Polyta Indonesia PT		X				
Tridaya Manunggal Cement Indonesia Enterprise PT	X	X	X			
Trinungraha Muda PT		X				
Trubaindo Coal Mining						X
Tsunami Technologies Corporation		X				
Tunas Bekasi Motor Corp. PT			X			
Tunas Bintang Motor Corp. PT		X				
Tunas Graha Rejeki						X
Tunggal Mitra Plantation						X
Tunggal Perkasa Plantations						X
Ubindo Aneka Biskuit						X
Ukanik PT		X	X			
Ultramos Jaya						X
Unggul Indah Chemical PT		X		X		
Unibox PT		X				
Unicor Kallista Motor PT			X			
Unicor Prima Motor PT		X	X		X	
Unicor Prima PT	X					
Unitama Adiusaha PT		X				
United Savings Bank of California		X				X
Unity Sakti C. & B. Making PT			X			
Usaha Manggar PT		X	X			
Wahana Inti Central Mobilindo PT		X			X	
Wahana Wirawan					X	
Waringin	X				X	
Waringin Holding Pte Ltd		X				
Waringin Kencana PT	X	X	X			
Waringin Kencana PT Bank		X				
Wastu Nidya Utama PT		X	X			

Company Name/ Source	Robison (1986)	CISI (1989)	Soetriyono (1989)	SocGen (1997)	DNB Database (2006)	Annual Reports/News
Watson Bogasari Co					X	
West Singapore Ind'l Park				X		
Westkolk Holding BV					X	
Williton Orchids					X	
Windu Kencana PT Bank		X				
Wira Dedana PT			X			
Wisma BCA				X		
Wisma Metropolitan PT	X					
Witikco PT		X	X			
Xiang Lu Industries					X	
Yunnan Kunlene Film Industri					X	
Zeta Aneka Kimia PT		X				

Annex 6: Business Events

Year	Short title
1984	In cooperation with UIC Liem plans meat business in Bulan
1984	First Pacific, a Liem company, moves into oil drilling rights
1984	Liem invests in palm oil
1984	Indomobil becomes sole agent for Volvo
1985	BCA opens office in the US
1985	Salim buys Hino Indonesia
1985	Indomobil acquires sole agency for Mazda
1985	First Pacific forms alliance with US trading firm
1985	Andree Halim buys shares in US Worthen Bank
1985	Government buys out Indocement for USD 385 million
1985	Long Term Credit Bank (Japan) invests in Salim leasing firm
1985	Taiwanese banking software for Lippo, BCA
1986	First Pacific moves into property
1986	Statomer expands caustic soda capacity by 50%
1986	Salim Group sets up Singapore property investment vehicle
1987	BCA trading unit to set up export oriented garment plants
1987	First Pacific buys into Thai securities firm
1987	Indomobil becomes sole agent for Nissan
1987	BCA and Indomobil team up to market Suzuki cars
1987	First Pacific buys Hong Nin Bank
1987	Salim Group enters steel industry in partnership with government
1988	First Pacific buys into Philippines cardboard boxes manufacturer
1988	First Pacific is listed on stock exchange
1988	First Pacific sells US based Hibernia bank
1988	First Pacific buys Hong Kong telecom company AsiaLink
1988	First Pacific sells retail chain to Japanese firm
1988	Salim Group into polystyrene with Dow Chemicals and local group
1989	Out of a merger, First Pacific Bank is established
1989	Indocement listed on stock exchange despite not meeting criteria
1989	Liem trading unit to get nutmeg export monopoly
1989	Government bails out Salim in loss making steel project
1989	UIC, alkyl benzene producer partly owned by Salim, expands
1989	First Pacific buys Australian soft- and hardware distributor
1989	Liem increases shareholding in UIC
1989	Government links up with Salim Group in timber and logging
1989	First Pacific sells interest in Thai securities firm
1989	Salim forms joint venture with Yakult (Japan)
1990	Salim Group bails out Bank Duta
1990	Salim Group into chlor alkaly joint venture in Philippines

1990 Hagemeyer acquires Australian firm
1990 Indomobil becomes agent for Volkswagen
1990 Salim joint venture with Japanese Long Term Credit Bank
1990 Salim Group in joint venture with Singaporean orchid grower
1990 Sumitomo and Salim build PC strand & wire plant in Indonesia
1990 Liem invests in Uzbekistan
1990 Salim starts Batam industrial park with Singapore government
1990 Salim Group in cleanset cement with 3 Japanese partners
1990 Salim Group established Indofood
1990 Liem buys UIC Singapore from ethnic Chinese
1990 Salim Group partners with Nikko Securities (Japan)
1990 Salim Group into palm oil in Moscow
1990 Salim Group in styrene plant with Japanese partner and Bimantara
1990 Liem invests in tourism industry & hotels in Vietnam

1991 Salim Group buys 50% of Albright & Wilson Australia
1991 Liem invests in Bintan with Singapore consortium
1991 Hagemeyer strengthens presence in the US with JV and acquisition.
1991 Salim Group in MSG plant with Korean partner & Bimantara
1991 First Pacific buys out Millicom in telecom joint venture in Hong Kong
1991 Salim Group buys German Deutsche Hydrierwerke
1991 Liem sells shares in Singapore Mandarin Oriental Hotel
1991 First Pacific buys United Savings Bank of California
1991 First Pacific Bank, part of Salim Group, bids for a Hong Kong Bank
1991 Indocement issues bonds to finance internal cement acquisition
1991 Indocement expands product line and terminal in Surabaya
1991 First Pacific buys into Internatio to merge it with Hagemeyer
1991 Salim Group exits steel by selling shares to government
1991 Salim Group and Taisei (Japan) to build industrial park in west Java.

1992 Anthony Salim President & CEO of Salim Group
1992 Salim and Dow Chemical build latex plant
1992 Liem is heavily investing in his area of birth around Fuzhou
1992 Indocement acquires Indofood, Bogasari and Wisma Indocement
1992 Pacific Link, part of First Pacific, launches network Hong Kong
1992 First Pacific sells Australian software company
1992 First Pacific buys Thai Property
1992 UIC Indonesia expands to Vietnam
1992 First Pacific invests in Vietnam property
1992 First Pacific buys security firm in Hong Kong, Guardforce
1992 Salim Group invests in oleo chemicals on Batam island
1992 UIC Indonesia acquires Petrocentral chemical plant
1992 Liem acquires concession for logging in Moluccas

1993 15% of FP Bank sold to Chinese ministry
1993 Salim Group buys into Astra, automotive company in Indonesia
1993 First Pacific supplier to Moscow Telecom Business
1993 Liem and Bank of China set up bank in Fujian
1993 Indofood & United Biscuits (UK) form joint venture in Indonesia
1993 Salim Group part of a consortium Java power plant with Enron

1993 Salim Group in consortium to bid for Indonesian telecom project.
1993 Metro Pacific, part of First Pacific, acquires Philippine packaging firm
1993 First Pacific links up with Chinese Ministry in banking
1993 First Pacific teams up with mainland Chinese partner in property
1993 Hagemeyer buys British distributor
1993 Salim Group invests in Philippines power plant
1993 Salim Group links up with Radisson to build hotels in Indonesia
1993 Jakarta Water JV with Suez Lyonnaise des Eaux (France)

1994 Salim Group invests in aerospace industry Batam
1994 Salim Group sets up pig farming with US agribusiness group Bunge
1994 Salim Group in oil refining and polypropylene Philippines
1994 First Pacific sells company to Salim Group
1994 Darya-Varia acquires 100% of Wigo, its distribution company
1994 Salim Group sets up noodle company in Nigeria
1994 First Pacific China established
1994 First Pacific sells interest in Internatio-Muller
1994 Salim, Mazda, Tomen, local firm in vehicle manufacturing in Fuzhou
1994 Indofood goes public
1994 Liem buys stake of Malaysian flour mill
1994 Salim Group invest in paging in JV with Indonesian Ministry
1994 Salim Group builds noodle plant in Saudi Arabia
1994 Salim bids for telecom project with Japanese partners
1994 Bank Central Asia takes over Continental Bank with Bank Danamon
1994 Indocement plans cement plant Kalimantan with partners
1994 Hagemeyer forms JV with Cosa Liebermann
1994 Darya Varia, a unit of First Pacific, listed on Jakarta stock exchange.
1994 Darya Varia buys stakes in two Indonesian Salim companies
1994 Property unit of First Pacific sells interest in Aigburth Hall
1994 First Pacific Davies acquires stake in Sportathlon Holdings
1994 Companies under Indofood Group merge
1994 Salim Group starts TV Channel Indonesia
1994 Liem Sioe Liong and Robert Kuok form sugar empire
1994 Indofood sets up noodle production in China
1994 First Pacific acquires Philippines Cocoa Corporation.
1994 Indocement acquires property interests
1994 Salim sets up fatty alcohol plant Batam
1994 Salim Group sets up biscuit plant with United Biscuits (UK)
1994 First Pacific sells United Savings to Salim family

1995 Salim and Albright & Wilson to build new plant in Australia
1995 Salim Group buys into Bambang's TV venture
1995 Hagemeyer acquires Dutch trading firm Borsumij
1995 Camerlin Group buys stake in Australian Food Co.
1995 Delham buys 20% stake in Brierley Investments
1995 FP leads consortium property Philippines called Fort Bonifacio
1995 FP buys 45% of Landco with property interests in the Philippines.
1995 FP sells part of Philippines telecom to Japanese NTT
1995 Liem supports government export initiative
1995 Indomobil becomes agent for Audi

1995 Indomobil invests in Vietnam
1995 Liem buys 20% stake in Singapore cement company
1995 Indomobil to build new plant with Nissan, Marubeni (Japan)
1995 Liem teams up with Pepsi-Cola
1995 Indomobil to assemble Korean cars
1995 Indomobil and Sumitomo of Japan build Dunlop tire plant
1995 First Pacific establishes joint venture with India's Godrej Group.
1995 Salim Group invests in Kalimantan port
1995 Indocement sells Bogasari to Indofood
1995 Camerlin Group bids for Pacific Foods, Liem shareholder
1995 First Pacific's Darya-Varia buys Indonesian pharmaceutical company
1995 Liem and other businessmen donate to Indonesian poor
1995 First Pacific moves into Australian real estate
1995 First Pacific sells of property and stakes in subsidiaries
1995 First Pacific Group will establish glass manufacturing in Vietnam
1995 Hagemeyer acquires German distribution company
1995 Marubeni (Japan) partners with Salim buying Indomobil bonds
1995 Indofood expands noodle production despite regulations
1995 Salim Group expands in chemicals producing plastics ingredients
1995 Liem and Sutanto buy First Pacific's Indonesian telecom operations
1995 Property and infrastructure project Suzhou, Liem part of consortium
1995 Consortium incl. Anthony Salim buys Singapore engineering firm

1996 Salim and Bambang partner in Asia Pacific Infrastructure
1996 BCA acquires outstanding shares of BCA Finance Limited HK
1996 Salim group expands caustic soda capacity
1996 First Pacific acquires stake in Indonesian telecom co.
1996 FP signs contract for telecom in India
1996 Salim Group, with First Pacific, invests in Fujian telecom
1996 Indomobil links up with Fuji, Marubeni (Japan)
1996 Salim Group plans olefin cracker with partners
1996 Power projects China, Indonesia, Salim group one of the partners
1996 Salim Group buys into QAF, a Singapore listed company
1996 UIC, a Salim controlled chemicals company diversified into property
1996 First Pacific teamed up with China United Telecom (Unicom)
1996 Salim group starts commercial operation of polypropylene film
1996 Backdoor listing Camerlin Group (Salim among shareholders)
1996 First Pacific into telecom venture in Shenzhen
1996 Pacific Link, with Vodaphone among winners of telecom bid in HK
1996 Indomobil sets up company in cooperation with EDS Corporation
1996 Nissin (Japan) partners with Salim in noodles
1996 Indomobil and Porsche join forces in Indonesia
1996 QAF enters Indian market
1996 Salim Group forms consortium for telecom bids
1996 Salims part of consortia to control Astra
1996 UIC awards Hyundai a contract for alkylbenzene plant

1997 Salims help Bambang to a new bank
1997 BCA buys biometric identification devices from US company
1997 Camerlin sells its stake in Australian National Foods

1997	Liem family members invest in fashion café Singapore
1997	First Pacific sells Australia-based Tech Pacific
1997	Salim Group attempts to take control of Jurong Cement, Singapore
1997	Salim Group sells Indofood to QAF, with Japanese firm
1997	Indomobil listed on Jakarta stock exchange (backdoor listing)
1997	Salim Group insurance firm establishes JV with Japanese firm
1997	Anthony Salim signs MOU for reclamation project Jakarta Bay
1997	Liems helps out Suharto's son in chemical business
1997	First Pacific divests Pacific Link, a Hong Kong telecom company
1997	QAF starts Gardenia-brand bread bakeries in Philippines
1997	Salim Group part of consortium to invest in Fuzhou Port
1997	Salim Group acquires a stake in San Miguel
1997	Salim Group invests in property Shanghai
1997	Monostyrene plant to triple production capacity
1997	Salim Group submits bid for super-express train worth 8.4 bln USD
1997	Salim Group's UIC plans to tie up with Albright & Wilson
1997	BCA takes 25% of Bank Yama
1997	BCA joins VISA network
1997	Salim Group wants strategic stake in Danamon Bank
1997	First Pacific part of a consortium awarded telecom license in Taiwan.
1997	Salim Group partner in Hanoi hotel
1997	Indofood acquires various companies from the Salim Group
1997	Indomobil expands production
1997	Indomobil will manufacture Timor Car
1997	Liem investor in KG Investments of Koo Family
1997	Salim Group major partner in petrochemical complex Java
1997	Salim cooperates in liquid carrier businesses with Raja Garuda Mas
1997	Singapore Telecom and First Pacific sign agreement in Philippines
1997	Liem said to bail out ailing banks of Suharto relatives
1997	Salim Group and Delhaize partner in Super Indo
1997	UIC inaugurated a new plant producing detergent ingredients
1998	Salim Group pledges assets to government
1998	Salim Group accused of bribing post-Suharto governments
1998	First Pacific sells Holland Pacific Paper
1998	First Pacific affiliate injects funds into Metro Pacific, a subsidiary
1998	First Pacific sells Hagemeyer
1998	Indo Hanshin International swaps owners
1998	First Pacific buys Philippines shipping company
1998	Salim Group enters milk distribution Philippines
1998	United Savings Bank divested
1998	Salims agree to hand over BCA to government
1998	Liem Sioe Liong distributes food to the poor
1998	First Pacific buys PLDT, the leading Philippines telecom company
1998	First Pacific and Nissin to buy Indofood
1998	Salim Group forms deal with Heidelberg Cement Group
1998	Indocement triples asset values
1998	Salim and Bambang in Pay TV with Murdoch as partner
1998	Indocement to divest stakes in power plants
1998	Salim Group exits joint venture in water with French company

1999 Indofood plans spin-off Bogasari
1999 Indomobil issues bonds to the Salim family
1999 Salim Group divests stake in Philippines food firm
1999 Tuntex, the First Pacific Taiwan telecom company, is divested
1999 First Pacific divests security firm
1999 Liem agrees to repatriate money to Indonesia after talks with Wahid
1999 Salim Group sells off part of QAF to Belgium partner firm
1999 Salim Group sells UIC stake to Philippines firm

2000 Salim Group buys out US partner Bunge in meat operations in Asia.
2000 First Pacific divests First Pacific Bank in Hong Kong
2000 Indocement merges with Indo Kodeco, an affiliated company
2000 QAF into animal feeds, China
2000 Indomobil starts to export to Bangladesh
2000 First Pacific divests Sportathlon, a leasure service provider in HK
2000 QAF acquires competitor in bread in Singapore, Bonjour Bakery
2000 QAF announces acquisition of China palm oil plants from Salims

2001 First Pacific sells Berli Jucker
2001 First Pacific divests Darya Varia, Indonesian pharmaceutical firm
2001 Indofood plans acquisition of Singapore food company
2001 Malaysian Food group Bernas forms alliance with QAF
2001 First Pacific divests Savills PLC

2002 Salim buys 45% of China property firm forming Cosco Salim Group.
2002 Salim partners buy back Indomobil spurring protests
2002 First Pacific announces PLDT sale to Gokongwei, CEO blocks deal
2002 First Pacific sells its majority interest in Bonifacio Land
2002 Salim Group rumored to have bought back Indosiar
2002 QAF buys Bunge Meats, a former Salim company

2003 Salim Group forms alliance with Futuris Corp.; buys 5% stake
2003 CoscoSalim sells part of Chinese construction company
2003 QAF sells Gardenia operations in Thailand
2003 Salim Group and Delhaize sell ShopNSave to a Singapore firm
2003 Salim invests in China property project through CoscoSalim
2003 Liem sells Fujian Bank
2003 Andree Halim bids to take majority share in QAF
2003 UIC, a Salim chemicals company, expands alkyl benzene production

Annex 7: 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;
- 50,000 hectares of sugar plantation in Lampung province producing 700,000 tons a year;
- pig farms on Bulan island, producing 250,000 heads a year for export to Singapore;
- Large scale chicken and crocodile farms on Bulan island;
- Orchid nurseries producing 2,000,000 sticks a 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 production annually (inorganic/ petrobased);
- 90,000 tons of ethylene dichloride (EDC) annually (inorganic/ petrobased);
- Joint Venture with Mitsui produces 82,000 tons of poly vinyl chloride (PVC) a year (inorganic/ petrobased);
- Joint Venture with Tosoh, production of vinyl chloride monomer and PVC targeted to start in 1997 (inorganic/ petrobased);
- 150,000 tons alkylbenzene annually (inorganic/ petrobased); new plant built 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 tripoly phosphate 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 & Communications
- TV station;
- Telecommunication Systems;
- Distribution and reselling of computers software and peripherals.

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

Food & 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;
- 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, Netherlands);
- Manufacturing of veterinary products, food, consumer goods and packaging materials, investments in telecom and real estate (Metro Pacific, Philippines);
- Manufacturing of corrugated fiberboard boxes (Steniel Manufacturing, 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 & Leisure

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

Trading & Distribution

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

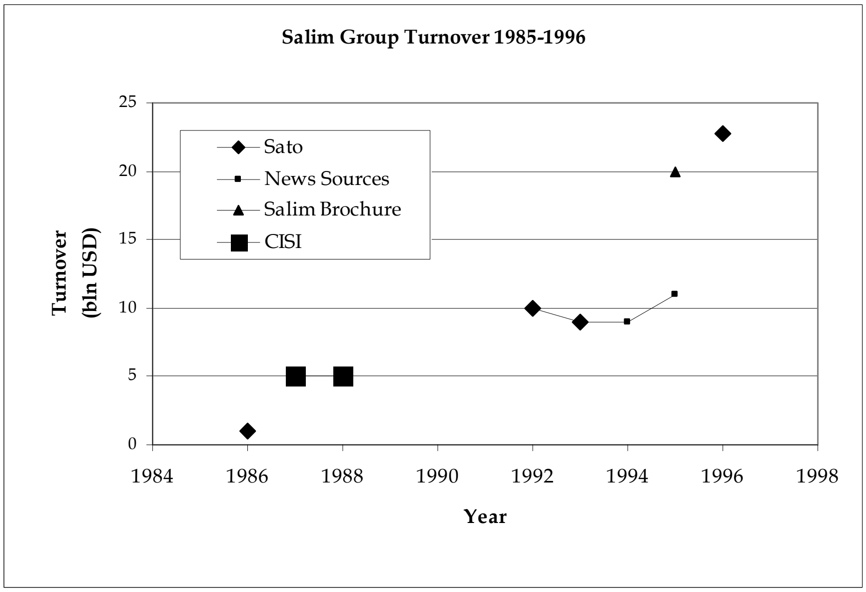
Division	Subdivisions	Turnover USD mln
Agribusiness	Plantations	250
	Livestock	
	Floriculture	
Automotive & Shipping	Automotive	370
	Shipping	
Banking and Financial Services	Bank Central Asia (BCA	11,000
	International Banking	
	Insurance, leasing, securities	
Chemicals	Inorganic/ Petrobased	1,000
	Organic/Oleochemicals	
	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 8: Salim Group Turnover

In this annex the figures on the turnover of the Salim Group are presented from different sources. First the estimates of the overall turnover of the group according to different sources, and secondly the turnover of listed Salim Group companies calculated using annual reports. All figures are converted into USD using annual average currency rates.

Year	Rupiah (trillion)	Rupiah rate	US dollars (billion)	Sources
1986	1	1283	0.8	Sato (1994) pp. 119 nb >1 billion
1992	20	2035	9.8	Sato (1993) pp. 409
1993	18	2083	8.6	Sato (2003) pp. 25
1996	53	2326	22.8	Sato (2003) pp. 27
1995		2249	20	Salim Brochure (1996) p.7
1987	7.9	1644	4.8	CISI Raya Utama (1989)
1988	8.1	1686	4.8	CISI Raya Utama (1989)
1993		2087	9	Financial Times, April 20, 1994
1993		2087	10	Australian Financial Review, November 30, 1994
1994		2161	9	The Australian, 16 August, 1995
1995		2249	9-10	The Australian, 26 January 1996
1995		2249	11	The Australian, 30 April 1996
1997		2909	8	Sydney Morning Herald, May 16, 1998



Turnover of Listed Salim Group Companies in USD million.

	Indofood	Indocement*	First Pacific	QAF	Indomobil*	Indosiar*	UIC	Total
1994	622	1568	3804	206	1049	0	131	**7380**
1995	930	1753	5249	231	1335	0	141	**9639**
1996	1207	1824	7025	265	1361	53	157	**11891**
1997	1715	540	8308	224	1557	65	156	**12565**
1998	882	159	2894	243	172	15	125	**4490**
1999	1470	254	1671	276	253	40	160	**4124**
2000	1508	291	2299	284	598	71	167	**5218**
2001	1408	332	1851	326	137	82	181	**4316**
2002	1842	442	1892	477	194	110	172	**5128**
2003	2115	491	2161	476	320	119	251	**5932**

* Salim Group shareholding substantially reduced after the Asian Crisis
Calculated into USD with historic annual average currency rates; rounded figures.
N.B.: not corrected for cross-ownership or pyramid structures.

Annex 9: 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 in various Salim Group companies. Son of Liem Sioe Liong. Born in Indonesia. Received a bachelor degree from the UK.
- *Andree Halim:* In charge of the Singapore/China activities of the Salim Group. Son of Liem Sioe Liong. Bachelor Degree from the UK. Holds board positions in QAF and Peaktop International Holdings.
- *Franciscus Welirang:* Responsible for Bogasari Flour Mills; Board Member in various Salim companies like Indofood and Indocement; son-in-law of Liem Sioe Liong. Bachelor degree from 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. Currently 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 board member in various Salim companies such as Indocement and First Pacific.

Key Professional Managers

- *Eva Riyanti Hutapea:* Public account and has been a director of several Indofood companies prior to the merger in 1994. 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 on selling 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 is a Salim Manager since 1982.
- *Angky Camaro:* Key figure in Indomobil, left the Group and is currently CEO of Sampoerna.

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	Korean business group
Cukong	Indonesian businessman linking up with an official
Danbangke	Trader with bicycle
Guanxi	Connections
Hengua	Language group from Fujian (sometimes spelled Xinghua)
Hokchia	Language group from Fujian
Hoki	Luck
Kretek	Clove cigarette
Masalah Cina	Chinese problem
Qiaoxiang	Ties with one's place of birth
Sinkeh	New Chinese migrant in Indonesia
Totok	Newly arrived Chinese in Indonesia
Om	Uncle
Peranakan	Assimilated Indonesian-Chinese
Xinghua	Language group from Fujian (sometimes spelled Hengua)

Abbreviations

ADB	Asian Development Bank
BCA	Bank Central Asia
BPPN	Badan Penyahatan 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
IPO	Initial Public Offering
IMF	International Monetary Fund
KKN	Korupsi, Kolusi, Nepotisme
MSAA	Master of Settlement and Acquisition Agreement
NPL	Non Performing Loans
PLDT	Philippine Long Distance Telephone
WTO	World Trade Organisation
UIC	Unggul Indah Cahaya
USD	US Dollar

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Index

Samenvatting

Het doel van deze studie is om de lange termijn strategie van de Salim Groep te analyseren. De Salim Groep is een van de grootste familiebedrijven in Zuidoost Azië. De groep bedrijven die later de naam Salim Groep zou krijgen werd in Indonesië opgericht door ondernemer Liem Sioe Liong, een migrant uit China. Liem Sioe Liong bouwde een indrukwekkend imperium op en ontwikkelde een nauwe band met de vroegere president van Indonesië, President Soeharto. Dit onderzoek maakte gebruik van verschillende bronnen, zoals persoonlijke interviews, jaarverslagen, informatie uit de media en al bestaande studies. Door deze te combineren werd een lange termijn analyse van de strategie van dit bedrijf gemaakt.

De literatuur over dergelijke familiebedrijven van Chinese afkomst kan worden onderverdeeld in drie perspectieven. Het culturele perspectief benadrukt dat Chinese normen en waarden het ondernemersgedrag beïnvloeden. Het migrantenperspectief benadrukt enerzijds de nauwe banden tussen leden van de Chinese diaspora en anderzijds de politieke netwerken die migranten opbouwen om te overleven. Het institutionele perspectief legt de nadruk op omgevingsfactoren als verklaring voor de strategie van etnisch Chinese bedrijven in Zuidoost Azië. Het is mogelijk om deze perspectieven te combineren als men onderscheid maakt tussen kleine, middelgrote en grote bedrijven. Afhankelijk van de fase van ontwikkeling van het bedrijf kunnen de verschillende perspectieven verklaringen voor het strategisch gedrag aanreiken. Om de strategie van de Salim Groep te bestuderen in haar context maakt deze studie gebruik van het "coevolutie" concept, dat ervan uitgaat dat de ontwikkeling van bedrijven en hun omgeving een interactief proces is.

Deze studie draagt op verschillende manieren bij aan kennis over dergelijke familiebedrijven. Dit boek is een rijke bron van origineel materiaal over de Salim Groep, een belangrijke speler was in de recente geschiedenis van Indonesië. De studie levert ook een bijdrage aan wetenschappelijke kennis. Ten eerste wordt beargumenteerd dat de Salim Groep een relatief consistent model volgde waarin zij producten en diensten leverden aan de locale markt. Dit is in tegenstelling tot bestaande theorieën die ethnisch Chinese familiebedrijven kenmerken als zeer flexibel. Ten tweede laat deze studie zien dat de ondernemersnetwerken van de Salim Groep substantieel veranderden in de laatste tien jaar. Alhoewel Chinese en politieke netwerken in een eerdere periode van groot belang waren, zijn Westerse en Japanse multinationals recent een van de belangrijkste partners van de Salim Groep. Ook dit gaat in tegen gangbare opvattingen dat dergelijke familiebedrijven vooral gebruik zouden maken van etnische netwerken. Ten derde wordt geconcludeerd dat naast gangbare redenen voor diversificatie de Salim

Groep vaak nieuwe bedrijven begon als resultaat van hun connecties. Het concept "economies of connectedness" wordt geïntroduceerd om dit nader uit te werken. Ten vierde laat dit onderzoek zien dat niet alleen externe factoren van invloed waren op de strategie. Ook interne factoren, zoals een generatiewisseling, zijn bepalend. Ten vijfde laat deze studie zien hoe de strategie van de Salim Groep verandert. Waar eerst vooral connecties leidend waren wordt langzaam toegewerkt naar een model waarin de markt het leidende principe is. De manier waarop deze verandering plaatsvindt is echter niet gelijkmatig. Hiervoor wordt in de studie het concept "oscillatie" gebruikt. De strategie van een bedrijf is steeds onderhavig aan invloeden van buitenaf en van binnenuit, en de resulterende richting die het bedrijf neemt zal dan ook geen lineair verloop laten zien. De studie laat rijk gedocumenteerd zien op welke wijze dit proces plaatsvindt. Als laatste maakt deze studie duidelijk dat het onderscheid dat vaak wordt gemaakt tussen bedrijven en nationale instituties in de praktijk niet altijd zo duidelijk is. De machtige positie van de Salim Groep in Indonesië, gecombineerd met de nauwe banden tussen Liem Sioe Liong en Soeharto maakte dat vele mensen de Salim Groep zagen als een verlengstuk van het Indonesische regime, of een symbool daarvan.

Dit onderzoek wijst op de zwakte van het culturele en het netwerk-perspectief. Alhoewel deze van waarde waren in het bestuderen van de Salim Groep in een eerdere periode kunnen deze perspectieven de huidige ontwikkeling van de strategie van het bedrijf niet verklaren. Het institutionele perspectief is hiervoor meer geschikt, zeker waar het de kennis betreft over de strategieën van bedrijven in een omgeving met zwakke instituties. Dit perspectief moet echter worden aangevuld met kennis over familiebedrijven, namelijk dat generatiewisselingen van groot belang zijn voor de strategie van een bedrijf. Alles bij elkaar genomen concludeert de auteur dat er weinig "Chinees" is aan de strategie van de Salim Groep, en dat, als men dit familiebedrijf vergelijkt met groepen in andere ontwikkelende landen, het wellicht in haar strategie niet uniek is.

Curriculum Vitae

Maria Helena Dieleman was born on April 6, 1974 in Vlissingen, The Netherlands. She holds a Master degree in business administration from the Rotterdam School of Management, Erasmus University in The Netherlands, obtained in 1997. After receiving her degree she worked subsequently as a consultant for Fource Consultancy and as a project manager for the Dutch Ministry of Foreign Affairs. In 2000 she was employed by Leiden University in The Netherlands in order to help set up Leiden University School of Management (LUSM). At LUSM she had different roles including Assistant Dean, Assistant Professor and Director of the MBA programme in International Management. From 2003-2007 she worked on her PhD at Leiden University.