Managing International Equity Placement Strategic Alliance

Case study in Indonesian State-Owned Enterprises and Bank Taken Overs

Harimukti Wandebori

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MANAGING INTERNATIONAL EQUITY PLACEMENT STRATEGIC ALLIANCE

**CASE STUDY IN INDONESIAN STATE-OWNED ENTERPRISES
AND BANK TAKEN OVERS**

DISSERTATION

to obtain
the degree of doctor at the University of Twente,
on the authority of the rector magnificus,
Prof.dr. T.T.M. Palstra,
on account of the decision of the graduation committee,
to be publicly defended
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by

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*Dedicated to Titik Nurhayati, Nabila, Ilhan, Salma, and Rizky.
To the memories of my parents: Sofyan Hamzah (1942-1988)
and Yayat Suchiati (1949-2006).*

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November 2016,

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SUMMARY

The process of globalization has acquired substantial attention during the past decades. It is viewed on the one hand as a beneficial process that provides a key contribution to world economic development. It is also widely considered as an inevitable and irreversible process. International strategic business alliances have the potential to provide an effective way to globalize more rapidly and therefore enhance a company's competitiveness (Dussauge & Garrette, 1999).

In Indonesia due to the economic crisis that emerged in 1997, many of the Indonesian State-Owned Enterprises (SOE) suffered severely and many private companies were bankrupted. Some of these private companies were taken-over by the government, for example several previously private banks. In order to revitalize them, the government as the shareholder used formation of international equity placement strategic alliances (IEPSAs) as one of the means for this revitalization.

International equity placement strategic alliance is an international cooperation that has a sharing ownership between or among partners, whereby each of them retain their independence and identity in all areas that are not subject to collaboration to gain mutual benefits and to strengthen their competitive advantages.

The central research question of the research is defined as follows: *How did the privatization process through International Equity Placement Strategic Alliance take place in Indonesia?*

In the objective to address the central research question, the following Research Questions were formulated.

Firstly, in order to reveal the steps and phases in the privatization through IEPSA of the cases in banking, cement, and telecommunications industries, the Research Question 1: What were the steps/phases in the privatization through IEPSAs in Indonesia at the firm level in the banking, cement, and telecommunications industries and how were they formulated?

Secondly, to obtain the model consisting of factors and variables which influence the steps and phases, the Research Question 2: Which factors and variables influenced these steps and phases?

Thirdly, to find the relationships between (among) the factors and variables, the Research Question 3: How were the relationships between (among) factors and variables was created?

A case study research was preferable to be conducted to addressing the research questions and fulfilling the research objective. In this research, six cases were selected. Indosat and Semen Gresik were selected as companies which were SOE from the start while Bank Niaga, Bank Permata, Bank International Indonesia, and Bank Central Asia were selected because they were once privately owned, i.e. Bank Taken Over (BTO).

The phases in the privatization through IEPsAs in Indonesia are composed of planning, formation, operation, and termination. Establishing the planning phase in general consists of four steps: an announcement, a first bidding stage (preliminary bid and due diligence), a second bidding stage and concluding with a sales and purchase agreement. In each of the steps the following factors need to be considered. They are; number of prospective partners, documented commitment, industry regulatory involvement, level of opposition, and acceptability of price. The formation phase in general comprises four steps: setting up new vision and mission, formulation of strategies, implementation plan, and acceptance from the commissioners. The factors to be considered in each of the steps are ownership percentage, market opportunities, time constraint, and informal formulation of strategies. The operation phase in general is composed of three steps: enhancement of human resources, organizational arrangement, and setting up control system. The factors to be considered in each of the steps are previous separated subsidiary, already flat organization, regulation, and corporate governance.

Eventually, the termination phase in general consists of two steps: existence of termination driver and termination. In the termination phase of the IEPsA, the steps to be considered are existence of termination driver with threat of monopoly and unfulfilled objective as factors to be well thought of. In planning phase, the factors consist of stakeholder support and strategic match. The stakeholder support comprises of society and internal organization. The stakeholder support factor consists of variables, which are; transparency of the privatization, share price, degree of internal relationship, fulfillment of budget deficit, company restructuring, unprecedented moment, limited shares in the bourse, existence of the floor price, and plan for privatization. Jahansoozi (2006) mentioned that when there is a lack of trust or a state of distrust exists in the organization-stakeholder relationship, transparency is a required condition for rebuilding trust and commitment in the relationship. The concept of transparency is linked to openness and is described as being both a relational characteristics as well as an environmental condition for organizational processes. In addition to Jahansoozi (2006), this research revealed that the transparency is influenced by the internal organization support and the share price which is derived from company restructuring, opposition from a number of managers and employees, reducing of budget deficit, unprecedented moment, share price in the bourse, limited shares in the bourse, existence of floor price, and plan for privatization.

Strategic match consists of capacity, complementarity, and strategic importance. The factor comprises of attractiveness of macroeconomic conditions, attractiveness of product or service as well as technology and financial performance, attractiveness of market, and alliance track record, complementarity related to the attractiveness of market and resources, complementarity related to

the attractiveness of market, complementarity related to the strategy, complementarity related to resources, pressure on continuity, pressure of time on alliance, and alternative to cooperation. The model of strategic match differs with Niederkofler (1991), Lorange and Roos (1992), Faulkner (1995), Sierra (1995), Segil (1996), Medcof (1997), and Douma (1997) as from the unveiled situation that there is existence of causal relationship between cultural understanding and strategic match through the pressure on continuity as well as influence of strategic match on the stakeholder support. Besides that, motivation of adaptation to local needs and standardization of system can influence the complementarity sub factors in the strategic match.

Trust in the planning phase of an IEPSA is obtained through the sharing of communication which is influenced by the stakeholder support and assurance of bidding offer. The sharing of communication can consist of both goodwill and competence. They are endorsed by the stakeholder who has prior knowledge about the partners and the intended IEPSA due to the positive influence of strategic match to the stakeholder support. Related to competence, an existence of assurance of bidding offer influences positively to the share of communication since it consists of assurance about the transfer of competence, and capabilities between partners in the IEPSA. Thus, the model obtained in this research refines Das and Teng (2001) who stated that trust is composed of goodwill trust and competence trust.

In formation phase, the factors are internal support and strategic planning. Internal support includes labor union and management support sub-factors. The factor consists of participation in the implementation of strategic planning, guarantee on employment, fit in objective, and differences between the current culture and old culture. In the model of internal organization support, strategic plan influences internal organization by having plans which convince the entire organization to participate in the implementation and provide guarantee of employment. This confirms Lorange and Roos (1992) who mentioned that the entire organization should be sufficiently explained and clearly motivated to ensure that everyone sees the tasks ahead and can focus on them as an opportunity. Besides that, in this research it was revealed that a formulated strategic plan influences positively to the cultural understanding which in turns endorse the participation in the implementation of strategic plan. Other factor that enhances participation is the existence of fit in objective while difference between the current culture with the old clan culture hinders participation.

In the strategic plan factor, it consists of commitment and existence of informal meeting on strategy formulation. In the model of strategic plan, commitment is required by the partners to complement and exploit the resources to obtain capabilities as sources of the alliance's competitive advantage. Lorange and Roos (1992) mentioned that creating a competitive advantage is desired in the strategic

plan. Therefore, this research unveiled that the state of strategic plan which comprises commitment of partners in terms of resources has causal effect to the internal organization support.

In operation phase, the factors are human resource management, organizational arrangement, management control system. The factors consist of collaborative people, opportunistic behavior, decentralization of decision making, new value enhancement, planning, control structure, control process, trust, commitment, share of communication, nurture the alliance, and unclear SPA. Lorange and Roos (1992) mentioned that people in the strategic alliances represent core competencies which need to be identified and cultivated. Strategic alliances arise through various types of interactions between the partners. These interaction processes are of two principal types: exchange and adaptation. In the model of human resource management of this research, it was revealed that collaborative people are required in the IEPSA to tackle these processes of exchange and adaptation. Nevertheless, opportunistic behavior can hinder the establishment of collaborative people in the IEPSA. Besides that, it was unveiled that human resource management influences positively to the management control system in the alliance and has causal effect with the evolved cultural understanding.

To adapt to the dynamic environment as an organizational requirement of a strategic alliances as mentioned by Bleeke and Ernst (1991) and Callahan and Mac Kenzie (1999), through a cross-case analysis it was suggested that an IEPSA needs to decentralize its decision making. This can be enhanced when partners in an IEPSA need to endorse new value to the alliance.

Behavior control is located within the human resource management where collaborative people are aspired by the partners in the IEPSA. In the alliance, collaborative people who concern for others and self are the ones control the required behavior in the IEPSA. Planning, control structure, and control process have the role to establish an output control in the alliance. Social control is embedded in the evolved cultural understanding which is composed of trust and commitment. This factor (evolved cultural understanding) is established to accommodate the establishment of common culture and values. This refines Das and Teng (2001) who mentioned that control in the strategic alliances consists of behavior control, output control, and social control.

The model of evolved cultural understanding is consistent with Parkhe (1998) who stated that trust can deliberately be “produced”. Trust, in accordance with the model as obtained in this research is acquired by the establishment of management control system consisting of planning, control structure and control process. The model is also consistent with Arino, de la Torre, and Ring (2001) who stated that as the quality of the relational improves the potential for positive conflict resolution increases, which in turn enhances the partners’ views of each other trustworthiness. Apart from Arino et al. (2001), this research revealed that as the objective of the partners can be fulfilled in the

IEPSA through the effective management control system, this situation enhances the evolved cultural understanding in the alliance which is composed of trust and commitment. Consequently, the situation can alleviate the cultural understanding inherited from the previous phases (planning and formation phases).

Finally, in termination phase the factors are internal driver and external driver which consist of strategic objectives, expectancy, corporate leadership, and failure to meet synergy, as well as external environment variable. This confirms Kanter (1994), Sierra (1995), Porter (1998), and Mockler (1999). In particular with IEPSA, it was also revealed that failure to meeting synergy is the factor that influences the internal driver of strategic alliance termination.

Along the life cycle of an IEPSA, relationships of the factors can be obtained. In the planning and formation phase, strategic match influences positively to the stakeholder and has reciprocal influences with cultural understanding while stakeholder support has reciprocal influences with cultural understanding. These relationships suggest that stakeholder support is initially established through the information related to the prospective partners before or during the due diligence to determine the strategic match between the prospective partners. Cultural understanding which is composed of trust and commitment is established and enhances strategic match and stakeholder support as well as the internal organization support in the formation phase. In other words, strategic match, cultural understanding, stakeholder support, and internal organization support can be enhanced with reciprocal relationships one to another. Internal organization support has reciprocal relationships with strategic planning. Besides that, cultural understanding influences the evolved cultural understanding in the operation phase. But, evolved cultural understanding can change due to its reciprocal relationships with human resource management and management control system. The latter is influenced by both human resource management and organizational arrangement.

Management control systems can be relatively easier to implement provided that planning, control structure, and control process are positives due to the increasing trust level so that structure and process mechanism were exercised in the culture of trust. In addition to Das and Teng (1998), in banking industry, compliance to Good Corporate Governance and risk management had improved the effectiveness of management control systems implementation. Besides that, the trust level had improved due to the increasing level of these factors; organizational arrangement (through its influence to management control system), and human resource management.

In the implementation, government should exercise transparency, establish related regulations, undertake prior restructurization, conduct consistency, cooperate while at the same time suggest and criticize the donor organization, and comply with the model established in this research. For the firms, it should mind of the economic condition, set the fair value of the share price, possess

dominant ownership structure of the foreign partner, implement the prior restructurization, enhance the trust and commitment, and comply with the model in this research.

TABLE OF CONTENTS

Page

ACKNOWLEDGEMENTS.....	IX
SUMMARY.....	XI
TABLE OF CONTENTS.....	XVII
LIST OF TABLES.....	XXIII
LIST OF FIGURES.....	XXVII
LIST OF ABBREVIATIONS.....	XXIX
CHAPTER 1: INTRODUCTION.....	1
1.1 Alliances and IEPSA	3
1.1.1 Classification of alliances	6
1.1.2 Definition of the IEPSA	10
1.2 Privatization.....	11
1.2.1 Introduction	11
1.2.2 Privatization's drivers and obstacles.....	11
1.2.3 The connection between privatization and IEPSA.....	14
1.3 Privatization in Indonesia through IEPSA.....	15
1.3.1 Initial privatization developments.....	15
1.3.2 Assessment of early privatization	16
1.3.3 Economic situation.....	18
1.3.4 Current privatization in Indonesia	18
1.4 Research design.....	26
1.4.1 Problem definition.....	26
1.4.2 The alliance life cycle	27
1.4.3 Industry selection.....	29
1.4.4 Research questions	33
1.4.5 Research contribution.....	34
1.5 Dissertation structure	34
CHAPTER 2: FRAMEWORK DEVELOPMENT.....	37
2.1 Phases	37
2.1.1 Alliance planning phase	38
2.1.2 Alliance formation phase	72
2.1.3 Alliance operation phase	76
2.1.4 Alliance termination phase.....	84
2.2 Common and specific characteristics.....	86
2.3 Conceptual framework.....	91
CHAPTER 3: METHODOLOGY.....	95
3.1 Case study research.....	95
3.2 External validity.....	95
3.2.1 Number of cases.....	96
3.2.2 Case selection criteria	96

3.3 Construct validity and reliability	97
3.3.1 Multiple sources of evidence.....	97
3.3.2 Case respondents.....	98
3.3.3 Case protocol.....	102
3.4 Internal validity.....	102
3.5 Operationalization of the conceptual framework	103
3.5.1 Planning phase.....	104
3.5.2 Formation phase.....	107
3.5.3 Operation phase.....	107
3.5.4 Termination phase.....	108
3.6 Assessment of the factors, sub-factors, and components.....	108
3.7 Conclusion	110

CHAPTER 4: CASE STUDY OF INDOSAT..... 111

4.1 Description of Indosat.....	111
4.1.1 Telecommunications industry before the intended IEPSA	111
4.1.2 The IEPSA initiation: September to December 2002	114
4.1.3 Setting up the IEPSA: January to March 2003.....	122
4.1.4 Running the IEPSA: April 2003 to May 2008.....	124
4.1.5 Closing of the IEPSA: June 2008	127
4.2 Analysis	129
4.2.1 Stakeholder support	129
4.2.2 Strategic match.....	130
4.2.3 Cultural understanding.....	132
4.2.4 Internal organization support.....	132
4.2.5 Strategic planning	132
4.2.6 Human resource management	133
4.2.7 Organizational arrangement	133
4.2.8 Management control system	133
4.2.9 Evolved cultural understanding	134
4.2.10 Internal driver.....	134
4.2.11 External driver	135
4.3 Additional insights.....	135
4.3.1 Insights on the stakeholder support.....	135
4.3.2 Insights on the internal organization support.....	136
4.3.3 Insights on the internal driver.....	137
4.4 Conclusions.....	137

CHAPTER 5: CASE STUDY OF SEMEN GRESIK 141

5.1 Description of Semen Gresik.....	141
5.1.1 Cement industry before the intended IEPSA	141
5.1.2 The IEPSA initiation: May to August 1998	143
5.1.3 Setting up the IEPSA: September to December 1998.....	152
5.1.4 Running the IEPSA: January 1999 to June 2006.....	154
5.1.5 Closing of the IEPSA: July 2006	156
5.2 Analysis	157
5.2.1 Stakeholder support	157
5.2.2 Strategic match.....	158
5.2.3 Cultural understanding.....	160
5.2.4 Internal organization support.....	160
5.2.5 Strategic plan.....	161
5.2.6 Human resource management	161
5.2.7 Organizational arrangement.....	161
5.2.8 Management control system	162
5.2.9 Evolved cultural understanding	162
5.2.10 Internal driver.....	163

5.2.11	External driver	163
5.3	Additional insights	163
5.3.1	Insights on stakeholder support	164
5.3.2	Insights on the strategic match.....	165
5.3.3	Insights on the cultural understanding.....	167
5.3.4	Insights on the internal organization support	167
5.3.5	Insights on the evolved cultural understanding	168
5.3.6	Insights on the internal driver	169
5.4	Conclusions.....	169
CHAPTER 6:	CASE STUDY OF BANK NIAGA	173
6.1	Description of Bank Niaga.....	173
6.1.1	Banking industry before the intended IEPSA	173
6.1.2	The IEPSA initiation: February to October 2002.....	179
6.1.3	Setting up the IEPSA: December 2002	186
6.1.4	Running the IEPSA: January 2003 to March 2005.....	188
6.1.5	Closing of the IEPSA: April 2005	190
6.2	Analysis	190
6.2.1	Stakeholder support	191
6.2.2	Strategic match.....	191
6.2.3	Cultural understanding.....	193
6.2.4	Internal organization support.....	194
6.2.5	Strategic plan.....	194
6.2.6	Human resource management	194
6.2.7	Organizational arrangement	195
6.2.8	Management control system	195
6.2.9	Evolved cultural understanding	196
6.2.10	Internal driver.....	196
6.2.11	External driver	196
6.3	Additional insights.....	197
6.3.1	Insights on the stakeholder support	197
6.3.2	Insights on the internal organization support	198
6.3.3	Insights on the strategic plan	199
6.3.4	Insights on the management control system.....	199
6.4	Conclusions.....	200
CHAPTER 7:	CASE STUDY OF BANK PERMATA	205
7.1	Description of Bank Permata.....	205
7.1.1	Banking industry before the intended IEPSA	206
7.1.2	The IEPSA initiation: July to November 2004.....	208
7.1.3	Setting up the IEPSA: December 2004 to March 2005	214
7.1.4	Running the IEPSA: April 2005 to August 2006	217
7.1.5	Closing of the IEPSA: September 20	220
7.2	Analysis	220
7.2.1	Stakeholder support	221
7.2.2	Strategic match.....	222
7.2.3	Cultural understanding.....	224
7.2.4	Internal organization support.....	224
7.2.5	Strategic planning.....	224
7.2.6	Human resource management	225
7.2.7	Organizational arrangement.....	225
7.2.8	Management control system	225
7.2.9	Evolved cultural understanding	226
7.2.10	Internal driver.....	227
7.2.11	External driver	227
7.3	Additional insights.....	227
7.3.1	Insights on the stakeholder support	228

7.3.2	Insights on the internal organization support	229
7.3.3	Insights on the human resource management	230
7.3.4	Insights on the management control system.....	230
7.4	Conclusions.....	231

CHAPTER 8: CASE STUDY OF BANK INTERNATIONAL INDONESIA 235

8.1	Description of Bank International Indonesia	235
8.1.1	Banking industry before the intended IEP SA	236
8.1.2	The IEP SA initiation: July to November 2003.....	238
8.1.3	Setting up the IEP SA: December 2003 to March 2004.....	244
8.1.4	Running the IEP SA: April 2004 to October 2006.....	246
8.1.5	Closing of the IEP SA: November 2006.....	249
8.2	Analysis	249
8.2.1	Stakeholder support	250
8.2.2	Strategic match.....	250
8.2.3	Cultural understanding.....	252
8.2.4	Internal organization support.....	253
8.2.5	Strategic plan.....	253
8.2.6	Human resource management	254
8.2.7	Organizational arrangement	254
8.2.8	Management control system	255
8.2.9	Evolved cultural understanding	255
8.2.10	Internal driver.....	256
8.2.11	External driver	256
8.3	Additional insights.....	257
8.3.1	Insights on the stakeholder support.....	257
8.3.2	Insights on the internal organization support.....	258
8.3.3	Insights on the organizational arrangement.....	259
8.3.4	Insights on the management control system.....	260
8.4	Conclusions.....	260

CHAPTER 9: CASE STUDY OF BANK CENTRAL ASIA 265

9.1	Description of Bank Central Asia	265
9.1.1	Banking industry before the intended IEP SA	265
9.1.2	The IEP SA initiation: December 2001 to March 2002	268
9.1.3	Setting up the IEP SA: April to June 2002	274
9.1.4	Running the IEP SA: July 2002 to September 2006.....	276
9.1.5	Closing of the IEP SA: October 2006.....	279
9.2	Analysis	279
9.2.1	Stakeholder support	280
9.2.2	Strategic match.....	280
9.2.3	Cultural understanding.....	283
9.2.4	Internal organization support.....	283
9.2.5	Strategic planning.....	283
9.2.6	Human resource management	284
9.2.7	Organizational arrangement	284
9.2.8	Management control system	284
9.2.9	Evolved cultural understanding	285
9.2.10	Internal driver.....	286
9.2.11	External driver	286
9.3	Additional insights.....	287
9.3.1	Insights on the stakeholder support.....	287
9.3.2	Insights on the internal organization support.....	288
9.3.3	Insights on the management control system.....	289
9.4	Conclusion	289

CHAPTER 10: CROSS-CASE ANALYSIS	293
10.1 Introduction	293
10.2 First research question	295
10.2.1 Planning phase.....	295
10.2.2 Formation phase.....	299
10.2.3 Operation phase.....	301
10.2.4 Termination phase.....	303
10.2.5 Knowledge contribution.....	305
10.3 Second research question.....	305
10.3.1 Planning Phase.....	307
10.3.2 Formation Phase.....	314
10.3.3 Operation Phase	317
10.3.4 Termination Phase.....	324
10.3.5 Knowledge contribution.....	325
10.4 Third research question	328
10.4.1 Relationship of the factors.....	328
10.4.2 Knowledge contribution.....	330
10.5 Conclusions	330
 CHAPTER 11: CONCLUSIONS, REFLECTIONS, AND RECOMMENDATIONS	 333
11.1 Conclusions	333
11.1.1 Phases	333
11.1.2 Factors and variables	334
11.1.3 Relationship of factors	338
11.2 Reflections	342
11.2.1 Reflection of research expectations.....	342
11.2.2 Reflection of the research model.....	344
11.3 Recommendations.....	346
11.3.1 Recommendations for the government	347
11.3.2 Recommendation for the firms	349
11.3.3 Recommendation for further research	350
 References	 351
 Appendices	 363
Appendix A: Valuation of Indosat.....	363
Appendix B: Valuation of Semen Gresik.....	364
Appendix C: Valuation of Bank Niaga	365
Appendix D: Valuation of Bank Permata.....	366
Appendix E: Valuation of Bank International Indonesia.....	368
Appendix F: Valuation of Bank Central Asia.....	370

LIST OF TABLES

Page

Table 1.1:	Definitions of a strategic alliance	5
Table 1.2:	Preferred alliance types.....	7
Table 1.3:	The classification of strategic alliance according to a specific objective	7
Table 1.4:	The position of IEPISA in the strategic alliance.....	9
Table 1.5:	The strategic alliance in terms of level of risk and speed.....	10
Table 1.6:	Privatization drivers.....	12
Table 1.7:	The connection between IEPISA and privatization	15
Table 1.8:	Indonesian macroeconomics indicators	18
Table 1.9:	Types and numbers of Indonesian SOE.....	20
Table 1.10:	Enterprises that were privatized until 2008	21
Table 1.11:	SOEs that are scheduled for privatization.....	21
Table 1.12:	The contents of law UU No. 19/2003	22
Table 1.13:	The focus of attention upon the life cycle.....	27
Table 1.14:	Summary of bank restructuring as of 1999.....	30
Table 1.15:	Prominent recapitalized and taken over bank and their ownership after privatization as of 2004	30
Table 1.16:	Cement industry scheme.....	32
Table 2.1:	Alliance life-cycle stages and relevant activities.....	37
Table 2.2:	The strategic alliance life cycle	37
Table 2.3:	The sub-factors of strategic match.....	51
Table 2.4:	Tangible Resources.....	64
Table 2.5:	Intangible Resources.....	64
Table 2.6:	The evolutionary of trust in alliance phases life cycle.....	83
Table 2.7:	Variables in termination phase and the driving forces	83
Table 2.8:	Factors for International Equity Placement Strategic Alliance.....	92
Table 3.1:	Indosat data gathering scheme.....	99
Table 3.2:	Semen Gresik data gathering scheme	99
Table 3.3:	Bank Niaga data gathering scheme.....	100
Table 3.4:	Bank Permata data gathering scheme	100
Table 3.5:	Bank International Indonesia data gathering scheme	101
Table 3.6:	Bank Central Asia data gathering scheme	101
Table 3.7:	Collected data	102
Table 3.8:	Operationalization of stakeholder support concept	104
Table 3.9:	Operationalization of the strategic match concept.....	106
Table 3.10:	Operationalization of cultural understanding concept	107
Table 3.11:	Operationalization of formation phase	107
Table 3.12:	Operationalization of operation phase	108
Table 3.13:	Operationalization of variables in the termination phase	108
Table 4.1:	Ownership structure of Satelindo until 2000	112
Table 4.2:	Ownership structure of Telkomsel until 2000	112
Table 4.3:	Comparisons between the old and new law of telecommunications	113
Table 4.4:	Pre-qualified investors of Indosat's IEPISA	114
Table 4.5:	The evaluation team and its task.....	116
Table 4.6:	The assessments of the big three investors	116
Table 4.7:	Number of subscribers.....	119
Table 4.8:	The downturn of Indosat's share six months before IEPISA.....	120
Table 4.9:	Comparison between selling share price and fair value of Indosat	120
Table 4.10:	The scheme of transaction cost of Indosat's IEPISA.....	121
Table 4.11:	Board of Directors of Indosat	123
Table 4.12:	Board of Commissioners of Indosat	123
Table 4.13:	Strategy components of Indosat in 2002.....	124
Table 4.14:	Indicators and performances of Indosat in 2002 and 2007	127
Table 4.15:	Time and duration of each phase	129

Table 4.16:	Relationships for the stakeholder support factor	130
Table 4.17:	Relationships for the strategic match factor	131
Table 4.18:	Relationship in cultural understanding factor	132
Table 4.19:	Relationships for the internal organization support factor.....	132
Table 4.20:	Relationships for the strategic planning factor	133
Table 4.21:	Relationships for the human resource management factor	133
Table 4.22:	Relationships for the organizational arrangement factor	133
Table 4.23:	Relationships for the management control system factor	134
Table 4.24:	Relationships for the evolved cultural understanding factor	134
Table 4.25:	Relationships for the Internal driver factor.....	135
Table 4.26:	Relationships for the external driver factor	135
Table 4.27:	Relationship of factors based on the Indosat case	139
Table 5.1:	Market share of cement industry	142
Table 5.2:	Cement consumption per segment 1997 – 1998.....	143
Table 5.3:	Invited investors of Semen Gresik’s IEPSA.....	143
Table 5.4:	The evaluation team and its task on the first stage of bidding.....	143
Table 5.5:	The scheme plan of Semen Gresik ownership.....	144
Table 5.6:	Data on global cement companies in 1998	147
Table 5.7:	Share price of Semen Gresik from June 1997 to July 1998.....	149
Table 5.8:	Comparison value of equity per share	150
Table 5.9:	Board of Directors of Semen Gresik.....	152
Table 5.10:	Board of Commissioners of Semen Gresik.....	152
Table 5.11:	Strategy components of Semen Gresik in 1998.....	153
Table 5.12:	Indicators and performances of Semen Gresik in 1998 and 2005	156
Table 5.13:	Time and duration of each phase	157
Table 5.14:	Relationships for the stakeholder support factor	158
Table 5.15:	Relationships for the strategic match factor	159
Table 5.16:	Relationship in cultural understanding factor	160
Table 5.17:	Relationships for the internal organization support factor.....	160
Table 5.18:	Relationships for the strategic planning factor	161
Table 5.19:	Relationships for the human resource management factor	161
Table 5.20:	Relationships for the organizational arrangement factor	161
Table 5.21:	Relationships for the management control system factor	162
Table 5.22:	Relationships for the evolved cultural understanding factor	163
Table 5.23:	Relationships for the Internal driver factor.....	163
Table 5.24:	Relationships for the external driver factor	163
Table 5.25:	Relationship of factors based on the Semen Gresik case.....	171
Table 6.1:	Cost of recapitalization and government’s shares at Bank Niaga.....	178
Table 6.2:	Key Financial Indicators of Bank Niaga.....	178
Table 6.3:	Top banks in Indonesia (2002)	179
Table 6.4:	The evaluation team and its task on the first stage of bidding.....	180
Table 6.5:	Shortlisted investors of Bank Niaga’s IEPSA	180
Table 6.6:	The evaluation team and its task on the second stage of bidding	181
Table 6.7:	Share price of Bank Niaga from February to June 2002	185
Table 6.8:	Comparison between selling share price and fair value of Bank Niaga	186
Table 6.9:	Board of Directors of Bank Niaga	186
Table 6.10:	Board of Commissioners of Bank Niaga	187
Table 6.11:	Strategy components of Bank Niaga in 2002	187
Table 6.12:	Indicators and performances of Bank Niaga in 2002 and 2004.....	189
Table 6.13:	Time and duration of each phase	190
Table 6.14:	Relationships for the stakeholder support factor	191
Table 6.15:	Relationships for the strategic match factor	193
Table 6.16:	Relationship in cultural understanding factor	193
Table 6.17:	Relationships for the internal organization support factor.....	194
Table 6.18:	Relationships for the strategic planning factor	194
Table 6.19:	Relationships for the human resource management factor	195

Table 6.20:	Relationships for the organizational arrangement factor	195
Table 6.21:	Relationships for the management control system factor	195
Table 6.22:	Relationships for the evolved cultural understanding factor	196
Table 6.23:	Relationships for the internal driver factor	196
Table 6.24:	Relationships for the external driver factor	197
Table 6.25:	Relationship of factors based on the Bank Niaga case	202
Table 7.1:	Owner of the banks merged as Bank Permata	205
Table 7.2:	Cost of recapitalization and government's shares at Bank Permata	207
Table 7.3:	Key Financial Indicators of Bank Permata	208
Table 7.4:	The top banks in Indonesia (2004)	208
Table 7.5:	The evaluation team and its task on the first stage of bidding	209
Table 7.6:	Shortlisted investors of Bank Permata's IEPISA	209
Table 7.7:	The evaluation team and its task on the second stage of bidding	210
Table 7.8:	Share price of Bank Permata from July to November 2004	214
Table 7.9:	Comparison between selling share price and fair value of Bank Permata	214
Table 7.10:	Board of Directors of Bank Permata	214
Table 7.11:	Board of Commissioners of Bank Permata	215
Table 7.12:	Strategy components of Bank Permata in 2004	216
Table 7.13:	Indicators and performances of Bank Permata in 2004 and 2006	220
Table 7.14:	Time and duration of each phase	221
Table 7.15:	Relationships for the stakeholder support factor	221
Table 7.16:	Relationship in strategic match factor	223
Table 7.17:	Relationship in cultural understanding factor	224
Table 7.18:	Relationships for the internal organization support factor	224
Table 7.19:	Relationships for the strategic planning factor	225
Table 7.20:	Relationships for the human resource management factor	225
Table 7.21:	Relationships for the organizational arrangement factor	225
Table 7.22:	Relationships for the management control system factor	226
Table 7.23:	Relationships for the evolved cultural understanding factor	227
Table 7.24:	Relationships for the internal driver factor	227
Table 7.25:	Relationships for the external driver factor	227
Table 7.26:	Relationships of factors based on the Bank Permata case	227
Table 8.1:	Cost of recapitalization and government's shares at BII	236
Table 8.2:	The progress of BII's Key Financial Indicators	237
Table 8.3:	Top banks in Indonesia (2003)	238
Table 8.4:	The evaluation team and its task on the first stage of bidding	239
Table 8.5:	The evaluation team and its task on the second stage of bidding	239
Table 8.6:	The assessments of the big two investors	240
Table 8.7:	Comparison between selling share price and fair value of BII	243
Table 8.8:	Board of Directors of BII	244
Table 8.9:	Board of Commissioners of Bank BII	244
Table 8.10:	Strategy components of BII in 2004	245
Table 8.11:	Indicators and performances of BII from 2003 to 2006	248
Table 8.12:	Time and duration of each phase	249
Table 8.13:	Relationships for the stakeholder support factor	250
Table 8.14:	Relationship in strategic match factor	252
Table 8.15:	Relationship in cultural understanding factor	253
Table 8.16:	Relationships for the internal organization support factor	253
Table 8.17:	Relationships for the strategic planning factor	253
Table 8.18:	Relationships for the human resource management factor	254
Table 8.19:	Relationships for the organizational arrangement factor	254
Table 8.20:	Relationships for the management control system factor	255
Table 8.21:	Relationships for the evolved cultural understanding factor	256
Table 8.22:	Relationships for the internal driver factor	256
Table 8.23:	Relationships for the external driver factor	256
Table 8.24:	Relationship of factors based on the BII case	262

Table 9.1:	Cost of recapitalization and government's shares at BCA	266
Table 9.2:	Key Financial Indicators of Bank BCA	266
Table 9.3:	Top banks in Indonesia (2002)	267
Table 9.4:	The evaluation team and its task.....	269
Table 9.5:	Share price of BCA from July to November 2004	273
Table 9.6:	Comparison between selling share price and fair value of BCA	273
Table 9.7:	Board of Directors of BCA.....	274
Table 9.8:	Board of Commissioners of BCA.....	275
Table 9.9:	Strategy components of BCA in 2002	275
Table 9.10:	Decentralization of loan decision making	277
Table 9.11:	Indicators and performances of BCA from 2002 to 2005.....	278
Table 9.12:	Time and duration of each phase	279
Table 9.13:	Relationships for the stakeholder support factor	280
Table 9.14:	Relationship in strategic match factor	282
Table 9.15:	Relationship in cultural understanding factor	283
Table 9.16:	Relationships for the internal organization support factor.....	283
Table 9.17:	Relationships for the strategic planning factor	283
Table 9.18:	Relationships for the human resource management factor	284
Table 9.19:	Relationships for the organizational arrangement factor	284
Table 9.20:	Relationships for the management control system factor	285
Table 9.21:	Relationships for the evolved cultural understanding factor	286
Table 9.22:	Relationships for the internal driver factor	286
Table 9.23:	Relationships for the external driver factor	286
Table 9.24:	Relationship of factors based on the BCA case.....	291
Table 10.1:	Cross-case data of the IEPSA profiles	294
Table 10.2:	The president and accompanying IEPSA case(s)	295
Table 10.3:	Duration of the phase in months	295
Table 10.4:	Steps in the planning phase.....	297
Table 10.5:	Forming the BOD and BOC	299
Table 10.6:	Steps in the formation phase	300
Table 10.7:	Steps in the operation phase	302
Table 10.8:	Steps in the termination phase	304
Table 10.9:	The result of factor influences	306
Table 10.10:	The result of stakeholder support	307
Table 10.11:	The result of strategic match.....	310
Table 10.12:	The result of cultural understanding	313
Table 10.13:	The result of internal organization support.....	315
Table 10.14:	The result of strategic plan	316
Table 10.15:	The result of human resource management	318
Table 10.16:	The result of organizational arrangement	319
Table 10.17:	The result of management control system	320
Table 10.18:	The result of evolved cultural understanding	322
Table 10.19:	The result of factors in termination phase	324
Table 10.20:	Relationship of the factors	328

LIST OF FIGURES

Page

Figure 1.1:	Strategic alliance structures	8
Figure 1.2:	International equity placement strategic alliance.....	11
Figure 1.3:	Principles of privatization.....	23
Figure 1.4:	Hierarchy of the privatization scheme	25
Figure 1.5:	Statutory foundation of privatization program	25
Figure 1.6:	Banking restructuring scheme	29
Figure 1.7:	Privatization for the cash of bank restructurization and liquidity support.....	31
Figure 1.8:	Diagram of Temasek Holdings	33
Figure 1.9:	Dissertation structure	36
Figure 2.1:	Planning and Formation phase of a strategic alliance.....	38
Figure 2.2:	Life cycle of an international equity placement strategic alliance.....	38
Figure 2.3:	Relationship of company condition prior to privatization, and plan for privatization variables with the stakeholder support	41
Figure 2.4:	Relationship of change of ownership, share price, and transparency of the privatization process variables with the stakeholder support	43
Figure 2.5:	Relationship of GDP growth and currency rate variables with the strategic match	53
Figure 2.6:	Relationship of market share and growth of market variables with the strategic match	55
Figure 2.7:	Relationship of partner's experience and partner's successfulness variables with the strategic match.....	56
Figure 2.8:	Relationship of quality and innovativeness of product or service variables with the strategic match.....	58
Figure 2.9:	Relationship of technology of product or service and information technology variables with the strategic match.....	59
Figure 2.10:	Relationship of profitability and growth of revenue variables with the strategic match	60
Figure 2.11:	Relationship of complementarity sub-factor with the strategic match	62
Figure 2.12:	Relationship of strategic importance sub-factor	66
Figure 2.13:	Cultural understanding of strategic alliance	69
Figure 2.14:	Trust and control in strategic alliance.....	70
Figure 2.15:	Relationship of share of communication, trust, with cultural understanding	71
Figure 2.16:	Relationship of nurture the alliance, commitment, with cultural understanding	72
Figure 2.17:	Planning phase of international equity placement strategic alliance	72
Figure 2.18:	Relationship of participation in the implementation of strategic planning with internal organization support.....	74
Figure 2.19:	Relationship of commitment with internal organization support	75
Figure 2.20:	Formation phase of international equity placement strategic alliance.....	75
Figure 2.21:	Interpersonal conflict handling style.....	77
Figure 2.22:	Relationship of collaborative people and human resource management	77
Figure 2.23:	Relationship of flattened organization, and decentralization of decision making with organizational arrangement	78
Figure 2.24:	Management control system	79
Figure 2.25:	Relationship of planning, control structure, control process, with management control system.....	80
Figure 2.26:	Operational phase of strategic alliance	81
Figure 2.27:	Relationship of performance of the alliance, commitment, with cultural understanding	82
Figure 2.28:	Termination phase of strategic alliance	85
Figure 2.29:	Conceptual framework for international equity placement strategic alliance.....	91
Figure 3.1:	Data analysis framework	103
Figure 3.2:	Conceptual framework.....	105
Figure 4.1:	Ownership structure of Indosat after IEPSA	117
Figure 4.2:	The parties involved in the SPA: intended and fact.....	122
Figure 4.3:	The number of cellular subscribers in Indonesia	126
Figure 4.4:	Ownership of Temasek Holding Limited	128

Figure 4.5:	Stakeholder support – adjusted.....	136
Figure 4.6:	Internal support - adjusted	137
Figure 4.7:	Internal driver - adjusted.....	137
Figure 5.1:	Shares and ownership of Semen Gresik after IEP SA	145
Figure 5.2:	Stakeholder support – adjusted.....	165
Figure 5.3:	Strategic match - adjusted.....	166
Figure 5.4:	Cultural understanding - adjusted.....	167
Figure 5.5:	Internal support - adjusted	168
Figure 5.6:	Evolved cultural understanding - adjusted.....	168
Figure 5.7:	Internal driver - adjusted.....	169
Figure 6.1:	Economic Crisis.....	174
Figure 6.2:	Ownership structure of Bank Niaga after IEP SA	183
Figure 6.3:	Stakeholder support – adjusted.....	198
Figure 6.4:	Internal organization support - adjusted	199
Figure 6.5:	Strategic plan - adjusted.....	199
Figure 6.6:	Management control system - adjusted	200
Figure 7.1:	Ownership structure of Bank Permata after IEP SA.....	211
Figure 7.2:	Stakeholder support – adjusted.....	229
Figure 7.3:	Internal organization support - adjusted	230
Figure 7.4:	Human resource management - adjusted.....	230
Figure 7.5:	Management control system - adjusted	231
Figure 8.1:	Ownership structure of BII after IEP SA.....	240
Figure 8.2:	BII share performance in 2003	243
Figure 8.3:	Stakeholder support – adjusted.....	258
Figure 8.4:	Internal organization support - adjusted	259
Figure 8.5:	Organizational arrangement - adjusted.....	259
Figure 8.6:	Management control system - adjusted	260
Figure 9.1:	Ownership structure of BCA after IEP SA	271
Figure 9.2:	Stakeholder support – adjusted.....	288
Figure 9.3:	Internal organization support - adjusted	289
Figure 9.4:	Management control system - adjusted	289
Figure 10.1:	The planning phase.....	295
Figure 10.2:	The planning phase - adjusted	298
Figure 10.3:	The formation phase	299
Figure 10.4:	The formation phase - adjusted.....	301
Figure 10.5:	The operation phase.....	301
Figure 10.6:	The operation phase - adjusted	303
Figure 10.7:	The termination phase.....	303
Figure 10.8:	The termination phase - adjusted.....	304
Figure 10.9:	Stakeholder support – adjusted.....	309
Figure 10.10:	Strategic match - adjusted.....	312
Figure 10.11:	Cultural understanding - adjusted.....	314
Figure 10.12:	Internal organization support – adjusted.....	316
Figure 10.13:	Strategic plan - adjusted.....	317
Figure 10.14:	Human resource management - adjusted	318
Figure 10.15:	Organizational arrangement - adjusted.....	319
Figure 10.16:	Management control system - adjusted	321
Figure 10.17:	Evolved cultural understanding - adjusted.....	323
Figure 10.18:	Internal driver - adjusted.....	325
Figure 10.19:	Relationship of the factors	330
Figure 11.1:	Bundling of capacity and its influence on performance of an IEP SA	341
Figure 11.2:	Cultural understanding, strategic match, and stakeholder support	342

LIST OF ABBREVIATIONS

ADB	Asian Development Bank
BBO	Bank Beku Operasi
BBKU	Bank Beku Kegiatan Usaha
BPPN	Badan Penyehatan Perbankan Nasional
BPS	Badan Pusat Statistik
BKPM	Badan Kordinasi Penanaman Modal
BLBI	Bantuan Likuiditas Bank Indonesia
BTO	Bank Taken Over
BUMN	Badan Usaha Milik Negara
CAR	Capital Adequacy Ratio
DCF	Discounted Cash Flow
EMBO	Employee and Management Buyout
E(R _m)	Expected Return on the Market
EVA	Economic Value Added
FCFE	Free Cash Flow to Equity
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IBRA	Indonesian Banking Restructuring Agency
IEPSA	International Equity Placement Strategic Alliance
IMF	International Monetary Fund
IPO	Initial Public Offering
KSF	Key Success Factor
LDR	Loan to Deposit Ratio
LoI	Letter of Intent
NPL	Non Performing Loan
Perjan	Perusahaan Jawatan
PMA	Penanaman Modal Asing
PP	Peraturan Pemerintah
PPA	Perusahaan Pengelola Aset
Perum	Perusahaan Umum
PT	Perusahaan Terbatas
R _f	Risk Free Rate
RDB	Regional Development Bank
R _m	Return on the Market
ROE	Return on Equity
ROA	Return on Asset
SOE	State-Owned Enterprises
SPV	Special Purpose Vehicle
STT	Singapore Technology Telemedia
SingTel	Singapore Telecommunications
UU	Undang Undang
Qtel	Qatar Telecom

CHAPTER 1: INTRODUCTION

The process of globalization has acquired substantial attention during the past decades. It is viewed on the one hand as a beneficial process that provides a key contribution to world economic development. It is also widely considered as an inevitable and irreversible process. It has provided the path to expand sales and consequently lead to expansion of production capacity and it achieved to benefit from the economic of scales. It has also provided the benefits by realizing vertical integration, rationalizing production, and access to (new) production resources (IMF Report, 2001). On the other hand, it is noticed that it bears strong negative effects too to this process. It is attributed that it increases inequality within and between nations that it threatens employment and the living standards of large groups of people and that it thwarts social progress.

Business alliances are being formed as a part of this globalization process. The forming of those is one of the means through which this globalization is realized. International strategic business alliances have the potential to provide an effective way to globalize more rapidly and therefore enhance a company's competitiveness (Dussauge & Garrette, 1999). Making international acquisitions is both costly and risky, setting up a network of wholly owned foreign subsidiaries requires a long time. The alternative of providing licensing agreements has as disadvantage that these provide limited control. For those reasons international strategic alliances are frequently deemed more suitable for expansion and participation in this globalization process because they allow the partner companies to pool resources in order to produce a global product and distribute it worldwide (Dussauge & Garrette, 1999).

In Indonesia due to the economic crisis that emerged in 1997, many of the Indonesian State-Owned Enterprises (SOEs) suffered severely and many private companies were bankrupted. Some of these private companies were taken-over by the government, for example several previously private banks. In order to revitalize them, the government as the shareholder used formation of international equity placement strategic alliances (IEPSAs) as one of the means for this revitalization. In Indonesia, an IEPSA is one of the options for privatization, in accordance with Law UU No. 19/2003. This particular privatization form through an IEPSA has become a common construct in Indonesia. The first IEPSA realization was the Semen Gresik alliance with Cemex in 1998. As a reaction on the economic crisis in 1997-1998 the government planned the formation of IEPSAs and made list of potential SOEs and Taken-Over Banks eligible for it. This IEPSA form of privatization ended in 2004 with the Bank Permata IEPSA.

Despite the perceived potential benefits of IEPSAs, the process of formation and management of IEPSAs turned out to be frequently problematic (Pangestu & Goeltom, 2001; Pangestu, 2003).

Managing IEPSA can be more difficult than other types of alliances (such as establishing a new company via a joint venture) because building from scratch can be an easier process than changing the existing organizations. An example of such difficulties was provided by the headline of a national Indonesian newspaper which indicated it as “robbery” (Republika, February 10, 2003). The article discussed issues concerned with the Indosat IEPSA. In particular problems with identity of the buyer of Indosat, the share price of Indosat, and the special purpose vehicle (SPV) constructed. This buyer of Indosat’s shares was Singapore Technologies Telemedia (STT) Singapore, which was owned by the same group of ownership with Singapore Telecommunications (SingTel) as part of Temasek Holdings (a Singaporean State-Owned Enterprise). In 2001, SingTel bought the shares of Telkomsel (competitor of Indosat) as much as 17.28% from KPN (a Dutch landline and mobile telecommunications company). Moreover, a year later SingTel increased its shares to 35%. The condition led to a new monopoly, where one group of companies dominated the Indonesian telecommunications industry. It was against the new telecommunications law UU No. 36/1999 which was designed to eliminate monopolies. The share price of government’s shares sold to STT Singapore was considered very low in comparison with the calculations from the merger and acquisition valuation in Indosat’s subsidiaries a year earlier. Furthermore, the issue of transparency appeared when the foreign partner used the Indonesian Communications Limited (ICL), with the headquarter in Mauritius, was to sign the Sales and Purchase agreement instead of STT as the party in the Sales and Purchase Agreement (SPA).

The article also described the IEPSA of Semen Gresik as one of the cases of “robbery”. This term was used as both SOEs were regarded by the stakeholders (especially labor union, top management, and society) as one of the best performing SOEs in Indonesia, but actually was sold to the foreign company for a relatively low price. There existed transparency problems such as suspicions that parts of the incoming funds were transferred to the political parties and that there had been insider trading prior to the Sales and Purchase Agreement (SPA). Semen Gresik was sold after the exchange rate of rupiah had plummeted to Rp 14,500 per US\$ from Rp 2,500 in the earlier year. The depreciation of Rupiah to U.S. Dollar affected to the low valuation of Semen Gresik when sold to Cemex.

As Indosat was sold with much lower price than its calculated valuation derived from its prior merger and acquisition a year earlier confirmed the new law of telecommunications, nationalist sentiments were prominent in both IEPSAs reflected as “anti foreign intrusion to the companies which belonged to the state”.

A vast amount of literatures about strategic alliances, joint ventures and collaboration is available. In spite of the noted problems with the IEPSAs, the subject of equity placement alliance appears to

be less investigated than other types of alliances (Mulyowahyudi, 2001). As a special type of an alliance, it has its own characteristics. The situation in Indonesia provides an opportunity for research on the process of forming and functioning of IEPSAs, in the setting of an economy in transition. The purpose of this research is formulated as *to gain insight into IEPSAs by studying privatization processes in the form of IEPSAs in the Indonesian context*.

The key items in the purpose statement will be discussed in the next sections, i.e. alliances and the specifics of IEPSAs (1.1), privatization (1.2), and the Indonesian context of privatization through IEPSAs (1.3).

1.1 Alliances and IEPSA

The proliferation of strategic alliances has been anticipated by Peter Drucker who has suggested that the greatest change in the way business is being conducted is in the accelerating growth of relationships based not on ownership but on partnership (Inkpen, 1996).

Different forms of cooperation between companies have been formed since the formation of companies or any sort of entrepreneurial activities. According to Draulans, deMan, & Volberda (2003: 151) the co-operation between firms is a very old phenomenon. They also notice, however, that there has been a clearly discernible increase in the number of alliances during the past decades. Early alliance literature dates from the 1960's and the work of Evan (1966) and Warren (1967) on inter-organizational relationships. Different forms of alliances have become more important for companies and management according to Duysters, Duyster, Kok, & Vaandrager (1999: 344). Several authors provide a definition of a strategic alliance, see Forrest (1992), Wilchocks & Choi (1994), Cobiainchi (1994), Contractor & Ra (2000), Das & Teng (2000), and Holtbrügge (2004). An overview of definitions is provided in table 1.1. Common processes and structures that occurred in strategic alliances can be determined from this table. These are:

- Process: The process of setting up and operating strategic alliances includes pursuing a set of agreed goals, sharing respective complementary assets and core competencies, gaining mutual benefits, and strengthening competitive advantages.
- Structure: In terms of business structure, an international strategic alliance is strategic and tactical, between two or more companies from different countries, each of them retain their independence and identity in all areas that are not subject to collaboration.

From the above commonalities for process and business structure the definition of an international strategic alliance is formulated as:

A cooperation that is strategic and tactical between two or more companies, from different countries, to pursue a set of agreed goals through continuously sharing their respective complementary assets and core competencies, whereby each of them retain their independence and identity in all areas that are not subject to collaboration, in order to gain mutual benefits and to strengthen their competitive advantages.

Table 1.1: Definitions of a strategic alliance

No	Author	Definition
1.	Contractor & Ra (2000)	An alliance is any cooperative or joint action between two companies on a contractual and/or equity joint venture basis
2.	Das & Teng (2000)	Strategic alliance is a voluntary cooperative interfirm agreements aimed at achieving competitive advantage for the partners
3.	Willcocks & Choi (1994)	Strategic alliance is interorganizational relationships involving voluntary, collaborative efforts of two or more organizations to create and add to, if not maximize, their joint value
4.	Forrest (1989)	Strategic alliance is collaboration between firms and other organizations, both short-term and long-term, which can involve either partial or contractual ownership, and are developed for strategic reasons
5.	Cobianchi (1994)	Strategic alliance is a short or long-term cooperative agreement between domestic and/or foreign companies in which their cooperative efforts will synergize their collaborative resources to yield a mutual benefit greater than their individual efforts
6.	Holtbrügge (2004)	Strategic alliance is two or more entities unite to pursue a set of important, agreed upon goals while in some way remaining independent subsequent to the formation of an alliance.

1.1.1 Classification of alliances

Alliances can take a variety of forms: joint ventures, R&D contracts, joint R&D, joint production, joint marketing, supplier relationships and distribution agreements (Lorange & Roos, 1992; Gates, 1993; Yoshino & Rangan, 1995). Because of the various types of alliances categorizing the different types of alliances provides insight of strategic alliances. Three major ways of categorizing alliances can be discriminated.

- 1 By the resources pooled, following Das & Teng (2000)
- 2 By the difference/similarity of companies entering into the alliance, following Jolly (2001 and 2002)
- 3 According to specific objective in which the companies create the alliance, or how the alliance is structured, following Kuglin (2002)

The first type of categorization is based on the Resource Based View. Das & Teng (2000: 43-46) provides four types of alliances: 1) joint ventures, 2) minority equity alliances, 3) bilateral contract-based alliances and 4) unilateral contract based alliances. In this view, joint ventures involve the creation of a legally separate company of which the alliance partners are normally the founding shareholders. Minority equity alliances occur when one or more partners take an equity position in another partner company. In bilateral alliances, partners put in resources and work together on a continuing basis. The key feature of unilateral contract based alliances is that the firms carry out their obligations independently of each other. The key argument of Das & Teng (2000) is that both parties bring valuable resources to the alliance. Furthermore, the type of alliance chosen should be guided by the type of resources that are combined. The preferred alliance types (from focal firm A's perspective) are presented in the table 1.2. Equity joint ventures are created to substantially integrate the joint efforts of partners-separate entities in which the partners literally work together. It provides the best opportunities to acquire partners' tacit knowledge and other knowledge-based resources (Das & Teng, 2000). However, the partners are also wary of losing their knowledge-based resources in a highly integrated operation in joint venture. So, they tend to prefer equity joint ventures only when their knowledge-based resource type is not the primary resource in the alliance (Das & Teng, 2000). In minority equity alliances, one or more partners take an equity position in the other. Firms will prefer minority equity alliances when they have primarily knowledge-based resources to contribute to the alliance and their partners have primarily property-based resources (Das & Teng, 2000). When both partners have knowledge-based resources, the equity joint ventures are not suitable since there will be racing of learning before the alliances terminate. The better choice is a bilateral contract-based alliance if the mission is one of learning. Unilateral contract-based alliances will be preferable when both partners intend to contribute primarily property-based

resources to a prospective alliance. Unilateral contract-based alliances will provide the requisite clarity for exchange of property rights. For example, if financing for distribution channels is needed, then a distribution agreement will suffice.

In IEPSA in the context of Indonesia, the Partner Firm B can be regarded as Indonesian SOE or Bank Taken Over (BTO) which provides property resources and the Partner Firm A is the foreign partner which provides the knowledge resources.

Table 1.2: Preferred alliance types

Partner Firm (A)	Partner Firm (B)	
	Property-Based Resources	Knowledge-Based Resources
	Property-Based Resources	Knowledge-Based Resources
Property-Based Resources	Unilateral Contract-based Alliances	Equity Joint Ventures
Knowledge-Based Resources	Minority Equity Alliances	Bilateral Contract-based Alliances

Jolly (2001 and 2002) suggests another type of categorization, partial conform to Das & Teng (2000). Jolly also acknowledges the central role played by the pooled resources but brings in other aspects. Comparing the two companies on a number of variables such as customers, suppliers, ownership, size and culture the aim is to determine how related or unrelated the two alliance partners are (Jolly, 2002). According to this, two types of alliances can be identified; endogamic and exogamic (Jolly, 2002: 48). Endogamic alliances are formed between companies in related environments that pool similar resources. Exogamic alliances are formed between companies with different backgrounds, who are pooling 'differentiated', specific resources. An example of endogamic alliance is joint design and/or production of parts by car manufacturers while a typical exogamic alliance is an alliance between a pharmaceutical company and a small biotech firm.

The third way to categorize alliances is based on the specific objective which the alliance is created, or how the alliance is structured. Table 1.3 presents several authors who have classified the strategic alliances based on this third categorization.

Table 1.3: The classification of strategic alliance according to a specific objective

No	Author	Classification
1.	Pucik (1988)	Alliances for technological change, e.g. cross-licensing, Co-production and OEM agreements, Sales and distribution ties, Joint product development programmes
2.	Kanter (1989)	Multi-company service consortia, e.g. for R&D, Stakeholders alliances (vertical alliances), or alliances between companies at different parts of the value chain, e.g. supply/producer complementary coalitions
3.	Cobianchi (1994)	Marketing agreements, technology licensing, joint product development, distribution agreements, comprehensive joint ventures, research partnerships,

No	Author	Classification
		manufacturing agreements, equity investments, consortia
4.	Kuglin (2002)	Sales alliances, solution-specific alliance

Based on the previous literature an overview of the different types of alliances is developed which is depicted in figure 1.1.

Figure 1.1: Strategic alliance structures

The developed classification in figure 1.1 is provided based on the existing literature. It combines ideas of Yoshino & Rangan (1995) (who classified the strategic alliance into contractual (type of collaboration) and equity alliance) as well as Mulyowahyudi (2001) (who further classified the strategic alliance into joint venture, collaboration, and equity arrangement). As also presented in table 1.4, the form is a further classification of the strategic alliance after the equity and non-equity alliance which consists of collaboration, equity arrangement, and joint venture. Dussauge & Garrette's classification (1999) and Cobiainchi's (1994) were in line with the type of strategic alliance. Furthermore, the classification of Kuglin (2002) was in line with the context of strategic alliance. The type of alliance is a further classification of strategic alliance form which consists of partnership contract, equity placement, and equity swap.

For the equity alliance there is a transfer of equity in the alliance in which each partner has a stake in the alliance. The forms of equity alliance are joint venture and equity arrangement. In the non-equity strategic alliance, there is no transfer of equity in the alliance. This form of non-equity alliance refers to collaboration. The equity strategic alliance is further formed into equity arrangements and joint ventures. The non-equity alliance can be broken down into several forms of collaborative strategic alliances. The definition of a joint venture is two companies that cooperate in the creation of a new, separate business entity in order to reach mutually compatible goals (Segil, 1996). Collaboration can include joint R&D, joint manufacturing, joint marketing, shared distribution, shared inventory, joint product development and standard setting. Yoshino and Rangan (1995) described it as a non-traditional contract. It is therefore the most flexible and potentially the least committed form of alliance at least at the outset (Yoshino & Rangan, 1995).

The international equity placement strategic alliance and the equity swap are the types of equity alliance classification in the form of equity arrangement. There are common shares of equity in this form. The difference between equity placement and equity swap is that there is an interchange of equity between partners in the equity swap, while for the equity placement only one partner has equity of the other partner. The context of IEPSA is geographical area between (among) companies from different countries, in this research is Indonesia. The subject of investigation in this research is privatization and thus one of the companies is a State-Owned Enterprise (SOE). A SOE is defined as a company in which the state has at least 51% of equity share. Although sharing of stock also occurs in the joint venture strategic alliance, the difference is that in a joint venture the object of the alliance is a new entity owned by partners. In the equity placement it is an existing entity. Secondly, in general the speed of the creation of the alliance is faster for an equity placement alliance than for a joint venture. The joint venture needs timing to acquiring determinant for independence from its parent companies (Sierra, 1995).

Table 1.4: The position of IEPSA in the strategic alliance

Classification	Equity Alliance
Form	Equity Arrangement
Type	Equity Placement
Context	International
Subject of investigation	State-Owned Enterprise

Third, the collaboration is different from an equity placement and a joint venture. The difference is that collaboration is a non-equity alliance while an equity placement and a joint venture are equity alliances. The following table depicts the similarities and differences of strategic alliances

according to equity-based classification. The table is based on the classification by Segil (1996) who classified the strategic alliance based on level of risk and speed.

Table 1.5: The strategic alliance in terms of level of risk and speed

Level of Risk	High	Joint venture	Equity arrangement: Equity Placement & Swap
	Low		Collaboration
		Low	High
		Level of Speed	

1.1.2 Definition of the IEPSA

The purchase of one company's equity by another company for cash, stock, or other considerations is the characteristic of equity placement (Segil, 1996). The elements of equity placement are 'equity' which means ownership interest in a corporation in the form of common stock or preferred stock (www.investorwords.com/1726/equity.html), and 'placement' which means the selling and purchasing of new securities (www.investorwords.com/3708/placement.html). By purchasing one company's equity, one or more collaborative companies take(s) ownership in the company (Das & Teng, 1998).

For this research an international equity placement strategic alliance is defined as:

A cooperation that is strategic and tactical between two or more companies, from different countries, in which one or more of collaborative companies take(s) on ownership in the other(s) by purchasing of one company's equity so there is a sharing ownership between or among partners, that unite to pursue a set of agreed goals through continuously sharing their respective complementary assets and core competencies, whereby each of them retain their independence and identity in all areas that are not subject to collaboration, in order to gain mutual benefits and to strengthen their competitive advantages.

Figure 1.2 depicts the international equity placement strategic alliances. In the figure, company A is considered as a foreign company in country A which buys the portion of government's shares in company B (SOE or BTO) in country B to form an IEPSA which produces product/service.

Figure 1.2: International equity placement strategic alliance

1.2 Privatization

1.2.1 Introduction

There is a broad view in society that privatization provides the solution for the problems of state-owned enterprises. By selling state-owned enterprises to the private sector, the reasoning is that these entities will become less politicized, more efficient, and thus will provide higher quality products and services. Administrative corruption will cease because its cost can no longer be hidden or being subsidized, and better managers will be attracted. Tax revenues from profits will increase, and the public treasury will be strengthened (Heracleous, 1999).

The definition of privatization in broad terms is the transfer of ownership and/or control of state-owned organizations to private investors (Heracleous, 1999). More specifically, privatization can take several forms. It can be complete or partial in terms of the amount of equity sold to private investors. It can be full or selective in terms of which parts of the state enterprises are sold. It can involve liberalization where a competitive climate and market factors are promoted in place of the previous monopolistic or oligopolistic climate. It may or may not involve transfer of ownership, where the latter can be achieved through methods such as leasing of state facilities for a fee, bringing in external management, or contracting out the provision of particular service.

1.2.2 Privatization's drivers and obstacles

The widespread process of privatization has been brought on by several factors, but the primary factor is the generally disappointing performance of state-owned enterprises (SOEs) in terms of efficiency and profitability. The widespread phenomenon of privatization is increasingly located in developing countries. These countries have relied more on SOEs than developed countries and in many cases SOEs became a heavy fiscal burden on the state. The growth of the private sector in many developing countries has been slowed down through government regulation of industries and

the directing of scarce credit to inefficient SOEs (Kikeri et al., 1994). In addition to poor SOE performance, privatization activity has been influenced by a number of variables or “drivers” as provided in table 1.6.

Table 1.6: Privatization drivers (adapted from Price Waterhouse, 1996)

Ideological shifts	Collapse of Marxist ideologies & movement towards free market economies
Donor pressure	Donor agencies and nations have been exerting increasing pressure on governments to encourage private participation in infrastructure Development
Regional bandwagoning	States which do not embark on privatization program risk becoming technologically obsolete compared to neighboring states/regions which have done so
Fiscal imperatives	High subsidies to inefficient SOEs became a burden on scarce government resources and intensified the risk of economic stagnation
Globalization of commerce	Global competition further exposed the inefficiencies of SOEs and increased the pressure for improvement
Globalization of finance	The easier availability of global funds as well as the growth of local capital markets facilitate the finance of large privatization project
Institutional capacity	The appointment of state boards to assist privatization and international agencies' encouragement of private investment has aided the privatization process
Growing middle class	A growing middle class has increased the demand for premium goods and services in such areas as communications and transportation, thus encouraging private sector involvement in their provision
Technological advancement	The private sector now has the knowledge to design and manage infrastructure to operate efficiently, as well as the capacity to operate beyond boundaries of national networks, e.g. as in the case of telecommunications

There are major hurdles to privatization at both the policy and administrative level (Austin, Wortzel, & Coburn, 1986).

In the policy level, the hurdles can be differentiated into several barriers as the following (Austin et al., 1986).

Political and ideological barriers

Privatization obviously encounters the largest ideological barriers in a socialist economy. However, even in capitalist and mixed economies, ideological arguments keep privatization off the policy agenda. Frequently, these ideological claims may in fact cloak political motives. In Argentina, for example some state enterprises produce military hard-ware or other goods considered essential to national security and are therefore considered untouchable. In Africa, SOEs have been retained for their value as nationalistic symbols of independence from the yoke of colonialism. In Britain, the privatization moves have been viewed by some as a political move aimed at changing the existing patterns of empowerment. Privatization is considered as a political attack. It seems as a means of plundering public sector assets and redistributing wealth to the wealthy and to industry and commerce. But it is more than an attack on public spending and workers' conditions, it was also considered as an attack on trade unionism. In Germany, the government cut back plans to reduce its

holdings in its national airline, Lufthansa. Opposition came from within the ruling coalition on the grounds that it might lead to new foreign shareholders' gaining influence in the company. Furthermore, there was concern that, in private hands, the airlines might not continue to buy aircraft from Airbus Industries, the German-French-British-Spanish consortium.

Economic barriers

A number of countries believe that government ownership is the optimal economic entity for handling natural monopolies. Others believe that their state enterprises are run efficiently, and in some cases this may be true. For example, the state oil company in Venezuela is widely recognized as being among the best-run enterprises in the country. Korean public enterprises are usually regarded as efficiently run, as are most as efficiently run, as are most of the government companies in Austria and Sweden.

Social barriers

Policy makers view some activities or assets of the public enterprises as social goods that belong to public sphere. For years, British privatization processes have been slowed by the arguments of powerful labor unions that privatization increases unemployment, reduces the standards of living and working conditions of public sector workers, and further increases the gap between the rich (who can afford private education, private healthcare, and housing) and the poor (who cannot afford those things).

In the administrative level, the obstacles of privatization can be obtained in the following condition (Austin et al., 1986).

Buyer willingness

Potential private sector buyers have other opportunities to use their funds. They are typically interested in high, but safe, returns on their capital investments. The government is most interested in selling those SOEs with the greatest losses. Since profitable SOEs provide positive cash flows, governments are less inclined to offer them for sale. Potentials private sectors are not interested in the losers unless the price is extremely low (which is politically risky for the government selling the enterprise) or the government policies causing the losses can be changed (which government are also unwilling to do from the political standpoint). A further dis-incentive for private investors is the uncertainty of future government regulatory actions and the risk of being renationalized if the political winds shift, as has happened in Britain on several occasions between the Conservative and Liberal governments.

Buyer capacity

Even when private sector buyers are interested in acquiring public enterprises, the financial capacity of the private sector may be inadequate. In part, this may be an issue of timing. The pressure to sell is greatest when performance is poorest. The private enterprises' losses are often high when the company is in recession. Unfortunately, this is likely to be the time when the private sector's buying capacity is most limited and when private sector managers and entrepreneurs are most burdened with maintaining their existing enterprises.

Enterprise size: The sheer size of the public enterprises sector, and even of individual enterprises in many countries, often exceeds the capital available to private buyers.

Administrative mechanisms: Selling an enterprise is administratively complex. A major hurdle is assessing the value of the company. A task made all the more difficult in the developing nations by the lack of capital markets, investment bankers, and valuation specialists.

Institutional resistance: Because of their multiple objectives and broad sphere of activities, public enterprises typically enjoy the support of many groups with vested interests in continued government control. At the highest level there is the head of the state, who may genuinely favor privatization of state enterprises but whose awareness of political risk and unfavorable publicity may make him or her hesitant to act. Government bureaucrats within supervising ministries resist privatization or hinder its implementation because they fear privatization will erode their influence and power. Similar resistance comes from SOE managers and employees who believe their jobs may be at stake if new owners attempt to rationalize employment. Finally, customers who sell to or buy from SOEs on relatively favorable terms are afraid they will be deprived of these benefits if privatization occurs. They can exercise political pressure to maintaining the status quo.

1.2.3 The connection between privatization and IEPs

The privatization of the state-owned enterprises (SOEs) exists in three forms. These are 1) the selling of the government shares into international companies, 2) initial public offering on the stock exchange, and 3) the selling of the government shares to the employees (El-Namaki & Foster, 1996). Based on the earlier provided definition of international equity placement strategic alliance, a connection between privatization and international equity placement strategic alliance can be developed. This is represented in table 1.7.

Table 1.7: The connection between IEPSA and privatization

Criteria	International strategic alliances	Privatization in the form of equity placement
Process	<ul style="list-style-type: none"> • Unite to pursue a set of agreed goals • Sharing respective complementary assets and core competencies • Gaining mutual benefits • Strengthening competitive advantages 	<ul style="list-style-type: none"> • SOE and foreign company pursue a set of agreed goals, sharing respective complementary assets and core competencies in order to gain mutual benefits and strengthen competitive advantages
Structure	<ul style="list-style-type: none"> • Strategic and tactical • Between two or more companies from different countries 	<ul style="list-style-type: none"> • The alliance is strategic and tactical by both SOE and foreign company
Process Structure	Specific to Equity Placement Strategic Alliance <ul style="list-style-type: none"> • Purchase of one company's equity • One of collaborative companies takes on ownership in the other(s) 	<ul style="list-style-type: none"> • The SOE's shares purchased by foreign company, hence it takes ownership of the SOE

From the definition of international equity placement strategic alliances provided earlier and the comparison provided in table 1.7, it can be seen that the first type of privatization of SOEs' (the selling of the government shares to international strategic companies) is identical with the concept of international equity placement strategic alliances.

1.3 Privatization in Indonesia through IEPSA

1.3.1 Initial privatization developments

Following the sharp decrease of the price of oil in the mid 1980s and in order to keep economic growth, the government of Indonesia planned to generate new revenues through emphasizing privatization to offset the falling revenues from oil. This turned out to be only talk and no action was taken (Hill, 2000: 103-105). In 1989, the finance minister announced that 52 state-owned enterprises (SOEs) would be listed on the Jakarta Stock Exchange between 1990 and 1992 (Habir, 1990: 101). Almost none of this intention was realized. In 1993, the minister of research and technology, B.J. Habibie, claimed that a similar number could be sold within a very short time frame (McLeod 1993: 7). Again, almost nothing came of what was claimed to be realized by the minister.

As indicated, privatization again came to prominence as a reaction on the economic crisis that hit Indonesia shortly after the unexpected float of the Thai baht in July 1997. It was one of the policies to which the government committed itself as a condition for the obtaining of financial assistance by the IMF in November 1997 (GOI 1997). The reason was that because of private capital was fleeing the country it became necessary to persuade the markets that henceforth the government would pay attention to microeconomic reform as a precondition for the return of rapid growth.

This would require SOEs (previously used as instruments for the distribution of patronage by way of artificially high buying prices, artificially low selling prices, privileged access to jobs and cheap loans or even grants) to be divested. However, before any such divestments could take place the crisis worsened and the banking system began to crumble. The government responded eventually by issuing a blanket guarantee of the banks' liabilities. This avoided a system-wide run on bank's deposits, but many banks failed, nevertheless. To make good of its guarantee, the government opted to issue bonds, which were used to compensate banks that took over failed banks' liabilities, or to inject as new equity in banks that were kept alive, even though their capital had become negative (McLeod, 2002). The volume of these bonds was large, amounting to Rp 644 trillion, or around \$75 billion at mid 2002 exchange rates. The cost of servicing the bonds has become a major component of government spending, with interest payment accounting for some 17% of the budget total in 2002 (Deuster, 2002: 20). As a consequence, privatization was now seen by the government as important. This is not so much as a signal of the government's commitment to policy reform but because of its potential to contribute revenue to offset the interest payments on these bank recapitalization bonds which amounted to Rp 644 trillion or about more than 40% of GDP in 2002 (Pangestu, 2003). The annual coupon rate of these bonds was from 10% to 16.5% (Pangestu, 2003). Nevertheless, progress has remained extremely slow, some privatization of the companies that enlisted in the Letter of Intent (LoI) with IMF to be privatized were delayed. Examples of this were the intended IEPSAs of BCA and Bank Niaga which scheduled to hold in 2001 but delayed for one year.

1.3.2 Assessment of early privatization

There are number of explanations for the lack of progress with privatization in the urgent need for additional funds. The funds were acquired because of increasing amount of budget deficit that reached its record high to -3.7% in 2001 (McLeod, 2004). This lack of progress was sourced both from the external and internal circumstances. The external circumstances were the stakeholder sentiment, regulatory system, and the timing. The internal circumstances were the SOEs which were treated as cash cows.

Stakeholder sentiment: Nationalist sentiment was strong, and the government was reluctant to push too hard with privatization if this would result in foreign ownership of what were regarded as key economic assets. Also the speaker of the People's Consultative Assembly publicly voiced his objections to the sale of firms under government control to foreign interests. From the point of view of foreign investors themselves there was also considerable reluctance in part, due to anti-foreigner sentiment.

Regulatory system: In addition, there were great concerns among both foreign and domestic businesses about the condition of the economy. Also, there was concern about the ability of the government to implement policies to get SOEs to improve capacity utilization. Perhaps more fundamentally, moreover, there was a very widespread lack of trust in the legal system. Corruption and incompetence were endemic, and there had been several prominent examples where foreign firms were particularly badly treated by the Indonesian courts (Pangestu & Goeltom, 2001: 147; Athukorala, 2002: 145-147).

Timing: Those who had been opposing privatization often argued that it was simply not the right time. The economy was still operating far below its capacity; the large conglomerates (that had dominated the modern sector of the economy for many years) were seemingly experiencing great difficulties. For example they could not afford to service their existing debt let alone acquire new assets. There were also fundamental concerns about the near-term future for Indonesia's economy and a lack of confidence in the ability of the government to perform. The problem with this argument was that it implicitly assumed that enterprise valuations would eventually improve.

SOEs as cash cows: State-Owned Enterprises were regarded as cash cows that could be used for the enrichment of individuals and, especially, for financing the political parties in newly democratic Indonesia, where the name of the game currently is to boost representation in the House of Representatives in the House of Representatives and the People's Consultative Assembly (McLeod, 2002).

The composition and size of domestic public debt provided to the banks during crisis can be classified into two categories: the recapitalization bonds for the commercial banks and the repayment bonds to Bank Indonesia. The amount of outstanding debt increased rapidly, along with the programme of bank restructuring and recapitalization from 1998 to 2000. The total government bond in December 2001 was more than US\$ 67 billion, or about 50 per cent of GDP.

The total amount of bond to recapitalize the banking sector was US\$ 42 billion, or about 43 percent of the total asset in all commercial banks in the country in the end of 2001. The size of government bond in the balance sheet of the banking system was certainly much larger than the total amount of outstanding credit of about US\$ 29 billion. The increasing amount of government bonds reflects the problems of banking restructuring and the crisis of confidence which were caused by the initial closure of the 16 banks, insufficient deposit guarantee initially, delays and political interference in bank restructuring and compounded by the political crisis.

The total amount of repayment bonds to Bank Indonesia amounted to about US\$ 26 billion in December 2001. These bonds consist mainly of the repayment bonds to cover the BLBI (Liquidity Support Bank Indonesia) channeled by Bank Indonesia from 1997-1998 (US\$ 17 billion) and the

bank guarantee provided by Bank Indonesia as part of the bank restructuring programme (US\$ 9 billion).

There are many controversies surrounding the issuance of BLBI bonds regarding the size of the liquidity support that could be much larger than the asset of the troubled bank itself; and the assets pledged by the bank owners and shareholders in return to the support given by Bank Indonesia being significantly less than the amount of liquidity support received by these banks. The government audit agency found many irregularities in process of channeling the liquidity by Bank Indonesia.

1.3.3 Economic situation

Economic recovery in Indonesia began in 2000 but remained initially moderate: GDP growth is about 3.2% in 2002, 4.4% in 2003, and 4.8% in 2004 (BKPM)¹. As a comparison, Gross Domestic Product (GDP) growth exceeded 7% annually in the decades before the financial crisis, leading to fundamental changes in the structure of the economy and helping elevate Indonesia from a low-to middle-income country (World Bank, 2008). As a result of a more conducive political and security situation, the Indonesian economic situation in the year 2007 improved. Economic growth was 6.3% with an inflation rate of 6.6% (BPS, 2007). The Rupiah currency strengthened compared to the US\$, from Rp 10,400/US\$ in the year 2001 to Rp 8,919/US\$ by the end of 2007. The main economic indicators are provided in table 1.8.

Table 1.8: Indonesian macroeconomics indicators (adapted from Bank of Indonesia, 2009)

No.	Item	2001	2002	2003	2004	2005	2006	2007	2008	2009
1.	GDP growth (%)	3.4	3.7	3.8	4.5	5.5	5.6	6.3	6.1	4.5
2.	Inflation rate (%)	11.5	11.9	5.2	6.4	17.11	6.6	6.6	9.8	2.8
3.	Interest rate (%)	17.9	13.8	9.5	7.3	12.7	9.8	8.10	9.5	6.25
4.	Exchange rate	10,400	8,940	8,000	8,790	9,330	8,520	8,919	9,699	9,300

1.3.4 Current privatization in Indonesia

This section contributes to the current privatization in Indonesia. The first part relates to the situation of SOE; performance, types, and contribution to the growth of economic. The second part relates with the enterprises that were privatized until 2008, and the SOEs that are scheduled for privatization. The third part is the regulation that relates with SOE; definition, objectives, and privatization.

The average Return on Asset (ROA) of SOEs in the year 2001 was 2.28% (Bappenas, 2006). By 2007, there were over 139 state-owned enterprises with total asset of approximately Rp 1,850

¹ BKPM Indonesia's Investment coordinating Board

trillion or equal to US\$ 206 billion. Their average ROA in the year 2007 was only 3.8%. SOEs provided earning of Rp 71.49 trillion or equal to US\$ 7.9 billion, dividend of Rp 22 trillion (US\$ 2.4 billion), and tax payment of Rp 21.45 trillion or equal to US\$ 2.4 billion. These SOEs were not supporting the nation's economy since the ROAs were much lower than the cost of equity and cost of debt of the firms. By definition the cost of equity is the required return of equity (Damodaran, 2008), $\text{Cost of Equity} = R_f + \text{Equity Beta} * (E(R_m) - R_f)$ where, R_f (Riskfree rate) is the expected return with certainty, Equity Beta is the measurement of risk in the industry and company, and $E(R_m)$ is expected Return on the Market Index. And cost debt is the rate of debt of the company which is equal to the riskfree rate adds with company's default rate (Damodaran, 2008).

As an illustration of the cost of equity and cost of debt of bank firm in Indonesia in 2007.

Risk free rate = 9.5 % (in accordance with government bond rate in 10 years in 2007, (Damodaran, 2008)).

Equity Beta = 1 (equity beta of bank industry (Damodaran, 2008)).

$E(R_m) - R_f = 7.25\%$ (risk premium of Indonesia, (Damodaran, 2008)).

$\text{Cost of Equity} = 9.5\% + 1 * 7.25\% = 16.75\%$

$\text{Cost of Debt} = 7.25\% + 1.75\% = 9\%$ (default rating AA- according to Pefindo, obligation rate Indonesia).

The calculated cost of equity and cost of debt are much higher than the average ROA of SOEs in 2001 and 2007 which were 2.28% and 3.8%. It can be concluded that the financial achievements of SOEs were not adequate to supporting national economy.

In 2002, there were 158 State-Owned Enterprises and they decreased to 139 state-owned enterprises in 2007 as presented in the table 1.9. There are four types of SOEs; the definitions can be obtained as the following:

Perjan is a form of state-owned enterprises whose entire capital is owned by the government. This treaty is public oriented service SOE so that always suffered lose financial performance.

Perum is a form of state-owned enterprises whose entire capital is owned by the government and is not divided into shares. It aims of providing public benefits, goods and/or high-quality services and at the same time pursuing the benefits based on the principle of corporate management.

Persero is a form of state-owned enterprises in the form of a limited liability company whose capital is divided into shares of which least 51% owned by the government. Its main goal is the pursuit of profit.

Persero Tbk. Company whose capital and number of shareholders meet the law of PP 12/1998 or the company which issues the shares in the capital market in accordance with legislation of capital market, UU No. 8/1995.

Table 1.9: Types and numbers of Indonesian SOE (adapted from BUMN Minister Republic of Indonesia, 2007)

No.	Description	2002	2003	2004	2005	2006
1.	Perjan	15	14	14	0	0
2.	Perum	11	13	13	13	13
3.	Persero	124	119	119	114	114
4.	Persero Tbk	8	11	12	12	12
Total number SOEs		158	157	158	139	139

Tesoro (1999) describes the Indonesian SOEs as having a lack of transparency with regard to running the companies. The public is mostly kept in the dark with regard to what extent and why the SOEs have a profit or loss. In addition, most government enterprises have monopoly rights in their fields. Generally, the service provided is not accommodating at all. Mismanagement, poor regulation or simple inertia left more than half of state-owned enterprises “unhealthy”. State-appointed managers ran companies like fiefdoms; bloated, failing industries were kept alive more from national pride than economic sense. They were overseen by touchy ministers and entrenched managers. They were wrapped in a mythology of development. Slimming down or selling off these sacred cows meant playing with fire (Tesoro, 1999).

The extensive set of SOEs also limits dynamic economic growth. SOEs, with access to subsidized Government financing, are inefficient, drain public finances, and encourage corruption. Direct budget subsidies largely flowing to SOEs, represent roughly 3% of GDP. Privatization of SOEs under regulatory structure is essential to provide a basis for new investment, improved competitiveness, and long-term growth. The most common privatization forms in Indonesia are the Initial Public Offering and International Equity Placement Strategic Alliance. Aside from problems with SOEs, previously private companies also suffered from the economic crisis, especially in the banking industry where the banks experienced high Non Performing Loans and the customers massively collected their deposits provided the bank with liquidity problems. For example, Bank Central Asia, Bank International Indonesia, Bank Danamon, Bank Permata, Astra International, and Indocement. The government bought the shares and restructured the companies under the National Bank Restructuring Agency (IBRA) and later on taken-over and managed by the State-Owned Restructuring Company (PPA). National Bank Restructuring Agency (abbreviated: IBRA) is a government institution established by the Presidential Decree Number 27 Year 1998 on the Formation of IBRA. This institution was established with the main task for the restructuring of banking, asset settlement problems and seek refunds are distributed to the state banking sector. Since performance was judged less than satisfactory, under the government of President Megawati Sukarnoputri, the institute was disbanded on February 27, 2004 under Presidential Decree No. 15 of 2004 on Duties and Dissolution The termination of IBRA. The State-Owned Restructuring

Company (PPA) took-over and managed the remaining works. SOEs and the previously mentioned private companies' shares have been sold or were scheduled to be sold to foreign companies. One of the forms through which this was planned to take place was the international equity placement strategic alliance.

The privatization target in the year 2004 was about US\$ 500 million (BKPM, 2003)². Tables 1.10 and 1.11 provide an overview of the privatization scheme in Indonesia.

Table 1.10: Enterprises that were privatized until 2008

No.	Companies	Type of Industry	Method of Privatization
1.	PT. Semen Gresik (SOE)	Cement Producer	Equity placement with Cemex Mexico
2.	PT. Indosat Tbk (SOE)	Satellite Provider	IPO and equity placement with STT Singapore
3.	PT. Telkom Tbk (SOE)	Telecommunications	IPO & equity placement with Singtel Singapore
4.	PT. Tambang Timah Tbk (SOE)	Mining Industry	IPO
5.	PT. Aneka Tambang Tbk (SOE)	Mining Industry	IPO
6.	PT. Pelindo II (SOE)	Harbor Services	IPO
7.	PT. Pelindo III (SOE)	Harbor Services	IPO
8.	PT. Bank Central Asia*	Banking	Equity placement with Farallon USA
9.	PT. Indocement *	Cement Producer	Equity placement with HeidelbergGermany
10.	PT. Perusahaan Pembangunan	Construction	IPO
11.	PT. Adhi Karya	Construction	IPO and EMBO
12.	PT. Bank Mandiri	Banking	IPO
13.	PT. Bank BRI	Banking	IPO
14.	PT. PGN	Gas	IPO
15.	PT. Bank Danamon*	Banking	Equity placement with Temasek Singapore and Deutsche Bank
16.	PT. Bank Niaga*	Banking	Equity placement with Commercial Bank Malaysia
17.	PT. Bank International Indonesia*	Banking	Equity placement with Kookmin Bank South Korea and Temasek Singapore
18.	BT. Bank BNI	Banking	IPO and secondary offering
19.	PT. Jakarta International Container	Freight forwarding	Equity placement with Hutchison Whampoa Hongkong
20.	PT. Bank Permata*	Banking	Equity placement with Standard Chartered Bank and Astra International
21.	PT. Jasa Marga	Toll Road	IPO

* Previous private company

Table 1.11: SOEs that are scheduled for privatization

(Adapted from Ministry of State-Owned Enterprise and other sources)

No.	State Owned Enterprise	Type of Industry	Method of Privatization
1.	PT. Kimia Farma Tbk	Pharmaceutical	IPO or Equity Placement
2.	PT. Angkasa Pura	Airport Services	IPO or Equity Placement
3.	PT. Iglas	Glass Industry	IPO or Equity Placement
4.	PT. Cambrics	Garment	IPO or Equity Placement
5.	PT. Atmindo	Electrical	IPO or Equity Placement
6.	PT. Kertas Padalarang	Paper	IPO or Equity Placement
7.	PT. Basuki Rahmat	Paper	IPO or Equity Placement
8.	PT. Kertas Blabak	Paper	IPO or Equity Placement
9.	PT. Indra Karya	Engineering	IPO or Equity Placement

² The privatization target in 2003

No.	State Owned Enterprise	Type of Industry	Method of Privatization
10.	PT. Virama Karya	Engineering	IPO or Equity Placement
11.	PT. Yodya Karya	Engineering	IPO or Equity Placement
12.	PT. Ina Karya	Engineering	IPO or Equity Placement
13.	PT. Rekayasa Industri	Engineering	IPO or Equity Placement
14.	PT. Intirub	Tire Industry	IPO or Equity Placement
15.	PT. Dok Koya Bahari	Harbor Services	IPO or Equity Placement
16.	PT. Jakarta International Hotel Development	Hotel	IPO or Equity Placement
17.	PT. Krakatau Steel	Steel Industry	IPO or Equity Placement
18.	PT. Merpati Nusantara Airlines	Airlines	IPO or Equity Placement
19.	PT. Garuda Indonesia	Airlines	IPO or Equity Placement
20.	PT. Rukindo	Excavation	IPO or Equity Placement
21.	PT. INTI	Telecommunications	IPO or Equity Placement
22.	PT. Rukindo	Excavation	IPO or Equity Placement

Legal aspects of privatization have been set up through UU No. 19/2003 about State Owned Enterprises. It consists of 95 articles of regulatory aspects of SOE including privatization as presented in the following table 1.12.

Table 1.12: The contents of law UU No. 19/2003

Part	Article(s)	Article explained	Content
Part I	1-9	-	General terms - Definitions of SOE, Perseroan, Perseroan Terbuka, Perum, Ministry, Director, Commissioner, Resources, Restructurization, Privatization, General meeting of shareholders - Objectives, Statute, Management, Control, Governance
Part II	10-33	-	Persero
Part III	34-62	-	Perum
Part IV	72-78		Restructurization and privatization
	72	-	Purpose and objective of restructuring
	73	-	Scope of restructuring
	74	√	The objectives of privatization
	75	√	The principles of privatization
	76	√	Criteria of SOEs that can be privatized
	77	√	The SOEs that can not be privatized
	78	√	Methods of privatization
Part V	79-80	√	Privatization committee
	81	√	Privatization policy
Part VI	82	√	Consultation on privatization
	83	-	Further unnoticed policy of privatization
	84	√	Conflict of interest
Part VII	85	√	Information confidentiality
Part VIII	86	-	Privatization output
Part IX	87-92	-	Other provisions
Part X	93	-	Transitional provisions
Part XI	94-95	-	Closing provisions

As presented in the table, the Law UU No.19/2003 about State-Owned Enterprises consists of nine parts, which are general terms, persero, perum, restructuring and privatization, privatization committee, consultation on privatization, information confidentiality, privatization output, other provisions, transitional provisions, and closing provisions. In the previous sections, the definitions

of SOE, persero, and perum related with Part I, II, and III have been provided so they are not mentioned in this section. The following description of chosen articles in the law are based on the dissertation's concerns which relate with Part IV, V, and VI of the law; restructurization and privatization, committee and policy, and consultation, especially the privatization part. They exclude the articles 72 and 73 about restructurization but include other articles relate with the objectives of privatization, principles or privatization, methods of privatization, privatization committee, policy, consultation, conflict of interest, and information confidentiality.

The objectives of privatization: The objectives of privatization in Indonesia are determined in accordance with UU No.19/2003, article no. 74. This is 1) to increase public ownership of the firm, 2) to increase efficiency and productivity, 3) to create a structure of good financial and managerial finance, 4) a healthy and competitive industrial structure with global orientation, and 5) to improve the working climate, macroeconomics, and market capacity. In general, the objectives of privatization are to increase the firm's performance, added value, and public ownership of the firm.

The principal of privatization: The principles of privatization in Indonesia are ruled by UU No. 19/2003 article no. 75 and Kepmen BUMN No. 117/MBUMN/2003 about Good Corporate Governance implementation. The principal of privatization is depicted in figure 1.3. It consists of transparency, independency, accountability, responsibility, and fairness.

Figure 1.3: Principles of privatization

Criteria of SOEs that can be privatized. As provided in article 76, SOEs that can be privatized must at least meet the criteria; industry/business sector which are competitive, or industry/business sectors which possess rapidly changing technology. Some of the assets or activities of the SOEs which perform public service obligations should be done by state enterprises, and can be separated for inclusion in the establishment of the company if necessary to be privatized.

The SOEs that can not be privatized. Based on article 77, SOEs that can not be privatized are; the SOEs which based on the provisions of legislation only be managed by the state, the SOEs engaged in the business sectors related to defense and national security, the SOEs in a particular sector granted by the government with a special task to carry out certain activities related to public interests, and the SOEs engaged in the business of natural resources that clearly based on the provisions of legislation prohibited to perform privatization.

Share ownership: The share in ownership by foreign capital investment (PMA), PMA stands for Penanaman Modal Asing (Foreign Direct investment), The PMA can be in the form of joint venture, straight investment such as IEPsA, and 100% foreign ownership stipulated that within 15 years of commercial operation the company divest the shares to local companies at least of 5% is ruled according to the government regulation No. 20/1994.

- a. In general, a PMA company is established as a joint venture between foreign and Indonesian partners. The partnership may involve legal entities (corporations) or individual persons. There is no requirement on the minimum amount of investment (equity plus loan). The amount is for the parties concerned to determine, based on their economies of scale and business considerations.
- b. A PMA company may be established as a straight investment, or 100% foreign ownership. It is required, that no later than after 15 years of commercial operation, the company starts to be divested by selling some of its shares to Indonesian individual(s) and/or business entities. This is to be accomplished through direct placement and/or indirectly through domestic stock exchange provided that the Indonesian share is maintained at least 5%.
- c. PMA companies in infrastructure projects such as ports, generation and transmission as well as distribution of electricity for public use, telecommunications, shipping, airlines, portable water, public railways and nuclear electric power generation should be established by way of strategic alliances between foreign and Indonesian state-owned enterprise.

Prospective partners: Under the Presidential Decree No. 24/2001, article 9, the prerequisites of the foreign partner can be determined based on strength of financial capability, largeness of marketing network, expertise in the associated technology, and willingness and ability to educate human resources

Methods of privatization: According to UU No. 19/2003 on article 78 and under the Presidential Decree Kepres No. 24/2001 article 6, the methods of State-Owned Enterprise privatization can be of selling the government's share by Initial Public Offering (IPO), Equity Placement Strategic Alliances, and Employee and Management Buyout (EMBO).

Privatization committee: The privatization team is ruled in accordance with UU No. 19/2003 on article 79. It consists of a Chairman (Minister of Economic Affairs Coordinator), a Vice Chairman/Daily privatization chief (Minister of State-Owned Enterprise), members (Minister of Financial Affairs, Secretary of State, Minister in the field where SOE operates), and a Secretary (Secretary of State-Owned Enterprise Minister).

The government team, headed by State-Owned Enterprise Minister provides the privatization policy (UU No. 19, 2003 Article No. 81) which consists of determining which SOEs will be privatized, deciding the method of privatization according to the characteristic of respective SOE,

determining the number of share to be sold to the foreign company, deciding the shares value, and assessing the target value of privatization program.

The hierarchy of the ‘rule of the game’ to the privatization scheme is illustrated in figure 1.4.

Figure 1.4: Hierarchy of the privatization scheme

Statutory of privatization: Under the Presidential Decree No. 24/2001, article 7, the prerequisites of State-Owned Enterprise privatization are:

1. In case of initial public offering, the process should be in compliance with the Law in Stock Exchange.
2. In case of equity placement strategic alliances, the process should be transparent

Figure 1.5 depicts the associated law of the SOE privatization:

Figure 1.5: Statutory foundation of privatization program

As provided in figure 1.5, potential partners who intend to establish an international equity placement strategic alliance in Indonesia should understand the privatization law in Indonesia, which is ruled in accordance with the law UU No. 19/2003. The respective law consists of all aspects considerations of privatization, mainly consists of methods of privatization, privatization team, scope and classification of SOE to be privatized, and rule of the game of privatization. Besides that, there are also supporting laws and regulations which need to be considered, such as law of perseroan terbatas, law of anti monopoly, law of investment, and law of stock exchange.

Consultation on privatization: In accordance with UU No. 19/2003, article No. 82, the intention to privatize the SOE should fulfill the following conditions.

1. Privatization should be preceded by the selection of prospective partners and based on the criteria set by the government.
2. For the selected prospective partners that have fulfilled and conformed with the criteria and after receiving the recommendation from the Ministry of Finance, thereafter should be socialized to the public and consulted to the House of Representative.

Conflict of interest. Under article no. 84, each person and/or legal entities that have the potential conflict of interest forbidden to engage in the process of privatization.

Information confidentiality. This is ruled under article no. 85. (1) The parties involved in privatization programs and processes required to maintain confidentiality of information obtained when the information is not yet open. (2) Violation of the provisions referred to in paragraph (1) subject to sanctions in accordance with the provisions of legislation.

1.4 Research design

1.4.1 Problem definition

In Indonesia, the earlier experiences of the privatization of State-Owned Enterprises and Taken-Over Banks have been problematic. For the selected form of international equity placement strategic alliances, the government had difficulties in formatting and managing it. The objective of the research is to gain insight into the privatization processes through IEPSAs in Indonesia. The central research question of the research is defined as follows:

*How did the privatization process through International Equity Placement
Strategic Alliance take place in Indonesia?*

1.4.2 The alliance life cycle

Several authors argue that research on strategic alliances should focus on the different life cycle phases at the firm level, see table 1.13. Pett & Dibrell (2000), Lei & Slocum (1992) and Holtbrügge (2004) emphasize the need to look at the formation and management phase. Niederkofler (1991) highlights a need to focus on the management phase. Finally, Medcof (1997) stated that the formation phase needs attention.

Table 1.13: The focus of attention upon the life cycle

No.	Author	Content	Focus of attention
1.	Pett & Dibrell (2001)	If the process of formation and development of an alliance was successfully completed by organizations they should also gain a competitive advantage	Formation and Development
2.	Lei & Slocum (1992)	Many firms do not understand the inherent complexities involved in formulating and implementing a strategic alliance and simply seek to cut costs and thereby reduce their commitment to investing in new product development and manufacturing technologies	Formulation and Implementation
3.	Niederkofler (1991)	A major cause for cooperative failure is managerial behavior in nature, cooperation differs fundamentally from competition. Whereas competitive processes are well understood and practiced daily, the key success factors in cooperative processes are widely ignored	Management
4.	Holtbrügge (2004)	It is argued that the success of international strategic cooperation depends on both situational conditions and management conditions. While the situational conditions determine the general usefulness of strategic cooperation in a given industry, the implementation of efficient management instruments may enhance the success of a particular firm	Formation and Management
5.	Medcof (1997)	Although there are many reasons for alliance failures, many authors conclude that poor selection of alliance partners is among the most important	Formation

Formation of strategic alliances

The formation of strategic alliance or what Pett and Dibrell (2001) stated in an exploratory stage is the initial process of bringing together two or more autonomous organizations, and these units attempt to fill gaps either in their technology, resources, or markets (Ring & Van de Ven, 1992). Included in this process is the scanning of governmental regulations and ethical issues for both the multinational and domestic organizations. Moreover, organizations should consider the role of national culture in the process. A significant difference between national cultures based on the countries of origin of the potential members of the alliance should signal planners to be aware of a greater challenge than originally envisaged.

The companies seeking for an alliance partner have to check the compatibility of the prospective partner's strategic management with individual strategic needs which dictate the role of alliances in a multinational company (Sierra, 1995). The role of strategic alliances within a firm's strategic

framework depends on a number of factors. Company with abundant resources such as technology, financial, R&D, and natural resources, has different motives and interest than that with fewer resources. Relatively, company with advance technological and R&D background under the mature product life cycle and stagnant market might seek alliances to company under the early stage of product life cycle and with a growing market and consequently the growing market company will seek alliance with company with advance technological and R&D background to support the market needs. The international strategic alliances seek the mutual benefit, compatible motives and hence it encourages the company's strategic vision and mission, which aims to going global.

In the formation of international equity placement strategic alliance in Indonesia, the process is in order to find the strategic match and stakeholder support between the host partner (Indonesian company) and foreign company. In this phase, both prospective partners assess the complementary know-how, resources, markets, strategic position and objective, economic condition. The stakeholder of the Indonesian companies should be assured of the benefits of alliance; it consists of top management, house of representative, ambient society labor union, and government.

Management of strategic alliances

Douma (1997), states in his theses that this phase focuses mainly on the implementation of strategic planning agreed by both parties. The emphasis is how to fulfill the objective setting which has been set in the strategic planning document, implementing with the appropriate strategic programming and strategic budgeting. Human resource management, organizational arrangements, and management control system are those that should be carefully considered in the management of strategic alliances.

Teramoto et al. (1991), identify the six factors they judge to be most important for strengthening the links between companies in an alliance, which focus on formation, success and management.

- The formation criterion is inevitably complementarity of resources
- The results criteria are to achieve tangible benefits on both sides through reciprocal trade, and to experience early success to demonstrate the value of the alliance
- The management criterion consists of three factors:
 - to identify an early target or objective for the alliance
 - to develop a close relationship on a personal basis between the partners
 - to communicate well through an effective boundary spanning function

1.4.3 Industry selection

The previous discussion in section 1.3.4 illustrated the spread of privatization and its methods in Indonesia. In this research, three specific industries are selected to determine the process of privatization through IEPSAs in Indonesia: banking, cement and telecommunications. The banking industry drained the government budget for the recapitalization and liquidity bond as much as 41% in 2001. The cement industry, where Semen Gresik formed an IEPSA with Cemex was the first experience of IEPSA in Indonesia. The telecommunications industry, where Indosat was in the list of IEPSA was considered as one of the biggest IEPSA experiences in Indonesia.

Banking industry

The crisis that hit the banking sector in Indonesia was the most serious compared to the banking sector in other countries in the world in the late 20th centuries in terms of its immediate impact on GDP country's stock of debt the time when GDP fell by more than 13.1% (Pangestu, 2003). Figure 1.6 depicts the banking restructuring scheme in Indonesia. The government provided the bonds for liquidity support and recapitalization program. In return, the government took over the ownership of the troubled banks.

The government in association with Indonesian Banking Restructuring Agency (IBRA) negotiated performance contracts and MOUs with the owners and management of the banks to be recapitalized by taking ordinary stocks and allowing management control to the owners of the banks. The summary of bank restructuring is provided in table 1.14.

Table 1.14: Summary of bank restructuring as of 1999 (Adapted from Pangestu, 2003)

Banks	Nr. of banks before restructuring	Bank category			Restructuring process	Nr. of banks after restructuring
		A	B	C		
State banks	7	-	-	7	4 merged into 1 1 new bank (export) All recapitalized	5
RDBs ³	27	13	10	4	12 recapitalized	27
Private national banks	142	72	40	30	48 closed 7 recapitalized 13 Bank Taken Over	92

Table 1.15 is the list of prominent recapitalized and taken over banks and their associated ownership after the privatization as of 2004, ordered in accordance with the size of their assets.

Table 1.15: Prominent recapitalized and taken over bank and their ownership after privatization as of 2004 (adapted from the bank websites)

	Gov't	Private	Public	Foreign	Total Asset (Rp Trillion)	Rank in Asset
Bank Central Asia	9.3 %	7.15 %	32.6 %	51 %	143.8	1
Bank Danamon	10%		24%	66 %	63	2
Bank International Indonesia	29%		20%	51%	35.1	3
Bank Niaga	21.5 %			52.8 %	30.8	4
Bank Permata ⁴	38%			62%	29.0	5

The issues in the banking privatization schemes are the tremendous restructuring capital needed in comparing with the low provision of government purchased equity to the state's cash, the anti-nationalism protest against the privatization, the transparency issues that were considered to be neglected by the government, and the fears from the employees of being laid-off.

Issues and problems in bank restructuring: Despite the progress in rehabilitation and recapitalization of the banking system, there remain many challenges and problems (Pangestu, 2003). The banking sector remains dominated by state banks, all of which have been recapitalized, but which remain weak, or banks taken over by the state. After the restructuring the state has become dominant, either through state banks or because it has taken over or recapitalized private banks. In fact, close to 85 percent of the total banking sector third-party liabilities are owned by the Government with 13 BTOs, 80 percent of the seven recapitalized banks under IBRA, and the remaining 4 state banks.

³ RDB = Regional Development Bank

⁴ Bank Permata is a merger of Bank Bali, Bank Universal, Bank Prima Express, Bank Arta Media, and Bank Patriot

The rest of the banking system is comprised mainly of the former large private banks which were taken over, merged and recapitalized and now comprising basically of four banks: BCA, the merged 10 banks under Danamon, Bank Niaga and Bank Bali.

Many deadlines were missed, and the seriousness of implementation questioned, especially with regard to the transparency of the debt restructuring of major private sector obligors and asset sales under the Indonesian Bank Restructuring Agency. There have been cases where former Presidents Habibie and Wahid intervened to provide for differential treatment for certain debtors and obligors. The legal and court system have also been found lacking in their ability to enforce decisions on corruption and bankruptcy, that even when decisions were made, there have been few actual sanctions and bankruptcies. The lack of transparency and discretion has led the IMF to increasingly micro-manage the LOI by creating oversight committees, independent committees and so on in an attempt to overcome the lack of authority and independence of the IBRA and of ineffective court systems. In one of the last LOIs, Corporate Governance guiding principles were introduced and all past agreements are to be reviewed against these guidelines.

The role of privatization in the recapitalization of the banking sector: The privatization in Indonesia can not be separated with the economic crises that rumbled from 1997 to 2002. In order to heal the country's economic; it needed a lot of cash one of the means for bank restructurization as depicted in figure 1.7. IMF provided the loan with the prerequisite of privatizing the state-owned enterprises, which claimed to be inefficient and drained public fund. The privatization cash was also transferred to the government for additional cash to bank restructurization and liquidity support by bank Indonesia through providing the government bonds.

Figure 1.7: Privatization for the cash of bank restructurization and liquidity support

Cement industry

The four biggest cement players in the world are: Lafarge (France), Holcim (Switzerland), Cemex (Mexico), and Heidelberg Cement (Germany). Each of these four companies has already invested in Indonesia by buying shares in Indonesia's cement companies, i.e. Semen Andalas, Semen Cibinong, Semen Gresik, and Indocement. Part of the Semen Gresik shares of 25.33% has been purchased by Cemex of Mexico since 1998. Heidelberg Zement of Germany took over the government shares at PT. Indocement Tunggal Prakarsa Tbk. of 60.62%. Holderbank made acquisition of 100% PT. Semen Cibinong Tbk. shares. Also, Lafarge of France, which merged with Blue Circle of British occupied 72.42% shares of PT. Semen Andalas Indonesia. Forty percent of the world cement market was occupied by 7 global cement companies, including Holderbank (9%), Lafarge (8%), Cemex (6%), Heidelberg (6%), Taiheyo (4%), Italcement (4%), and Blue Circle (3%). All of them possessed 577.4 million tones of all 1,480 million tones of the cement world demand.

Table 1.16 shows the list of cement producers in Indonesia in accordance with the amount of production capacity. The four biggest cement producers have already made the alliances with prominent world cement players.

Table 1.16: Cement industry scheme (adapted from each company's website)

Company	Government	Private Domestic	Public	Foreign	Capacity Mmt/year	%
Semen Gresik	51.01%		23.46%	25.53% Cemex Mexico	17	92.4
Indocement Tunggal Perkasa		13.03%	21.83%	65.14% Heidelberger Germany	15.5	
Semen Cibinong	-	-	22.67%	77.33% Holcim Swiss	10.5	
Semen Andalas	-	-	-	100% Lafarge France	1.2	
Semen Baturaja	100%	-	-	-	3.62	7.6
Semen Kupang	100%	-	-	-		
Semen Bosowa	100%	-	-	-		

Telecommunications industry

The main telecommunications players in Indonesia are PT. Telkom and PT. Indosat. Indosat is the second largest telecommunications after PT. Telkom and focused on the satellite provider and international connection. While, PT. Telkom focused on the fixed telephone line. However, at present both companies compete each other in the cellular industry. Both companies have undergone the international equity placement strategic alliance; PT. Indosat made an alliance with Singapore Technology Telemedia (STT), while PT. Telkomsel (one of PT. Telkom subsidiaries) made an alliance with Singapore Telecommunications (SingTel).

Singapore Technology Telemedia (STT) and Singapore Telecommunications (SingTel) are both the subsidiaries of Temasek Holdings, which belong to Singaporean government. This fact generates

concerns of nationalists about transferring monopoly power from Indonesian government to Singaporean government. Below is the diagram showing the detail of affiliation.

Figure 1.8: Diagram of Temasek Holdings (Adapted from Temasek website)

1.4.4 Research questions

In the objective to address the central research question (How did the privatization process through International Equity Placement Strategic Alliance take place in Indonesia?), the following Research Questions were formulated.

Firstly, in order to reveal the steps and phases in the privatization through IEPSA of the cases in banking, cement, and telecommunications industries, the Research Question 1: What were the steps/phases in the privatization through IEPSAs in Indonesia at the firm level in the banking, cement, and telecommunications industries and how were they formulated?

Secondly, to obtain the model consisting of factors and variables which influence the steps and phases, the Research Question 2: Which factors and variables influenced these steps and phases?

Thirdly, to find the relationships between (among) the factors and variables, the Research Question 3: How were the relationships between (among) factors and variables was created?

1.4.5 Research contribution

This research is envisaged to provide insight for various people or organizations.

Management science: The results are aimed to contribute from the scientific point of view to the knowledge of international equity placement strategic alliance, concerning definitions, models, characteristics, mechanisms and benefits. The identified variables, factors, steps, and phases within the models, and the identified the key success factors are expected to contribute to the knowledge of IEPsA.

Foreign investors: The conceived result provides the foreign investors/companies a guideline to expand the activities by purchasing Indonesian potential state-owned enterprises or taken-over companies through international equity placement strategic alliance. The guidelines will describe and elaborate the foreign investors/companies on the preparation process for building successful international equity placement strategic alliances, which means the privatization of selling some shares of the government in the State-Owned Enterprises and Taken-Over Banks to foreign partners.

Indonesian companies: The intended results aim for Indonesian companies to provide insight to prepare for the new atmospheres from the foreign investors by building international equity placement strategic alliances in Indonesia. Changing the old paradigm that has been adhered for a long time to the new paradigm proposed by the new owners, however this should be inevitably followed and adopted by Indonesian companies to improve the company's performance.

Indonesian government: The expected result of this research will gain insight for the government that can contribute to make the appropriate preparation, and policy to Foreign Direct Investment especially in international equity placement strategic alliance in Indonesia and/or the privatization through selling shares to foreign investors/companies in accordance with Law UU No. 19/2003 article No. 78 point a.

1.5 Dissertation structure

The dissertation structure is provided in the following figure 1.9. In Chapter 1, the problem background, objectives and scope, problem definition, research questions, research design and methodology are treated. The overview of privatization and the connection between privatization and international equity placement strategic alliance are also provided. Furthermore, in order to gain insight of Indonesian characteristics where the research takes place, the description of Indonesian characteristics related to international equity placement strategic alliance are presented in this chapter.

The theoretical foundation to explore the main dimensions and variables particularly the characteristics and management issues in the international equity placement strategic alliances is presented in Chapter 2. The exploration is aimed to obtain the research framework to guide the data collection.

The methodology of this dissertation is provided in Chapter 3. It consists of case study research, case selection, data collection, data analysis, and operationalization of the conceptual framework.

The case studies of the IEPs in Indonesia are presented in Chapter 4 to Chapter 9. The purpose is to assess the accuracy and comprehensiveness of the research framework developed previously. Besides that, it is aimed to know how the international equity placement strategic alliances were constructed in Indonesia. The cases are split into state-owned enterprises and taken-over banks.

The observed findings are discussed in Chapter 10, containing cross-case analysis of the case studies in the objective to provide more powerful explanations and also to know the degree of successfulness of these cases studied.

The last Chapter 11 addresses the research questions, provides the conclusions, reflection, and recommendations of developing international equity placement strategic alliances in Indonesia along with proposed guidelines for further research.

Figure 1.9: Dissertation structure

CHAPTER 2: FRAMEWORK DEVELOPMENT

A conceptual framework is developed in this chapter. This framework is developed to have a systematic data collection. The attention is on the privatization process which consists of phases with activities (discussed in section 2.1) and determining common and specific characteristics (discussed in section 2.2). The results of the discussions are put together in a conceptual framework in section 2.3.

2.1 Phases

In the life cycle of international strategic alliance several phases can be distinguished. Faulkner (1995) and Lorange & Roos (1992) divide the phases into formation, management (implementation), and evolution. Mulyowahyudi (2001) discerns them into formation, operation, and termination. Furthermore, Segil (1996) divides the phases into start-up, hockeystick, professional, mature and consolidating, sustaining or declining. Explanations of the phases can be seen in table 2.1 (Segil, 1996).

Table 2.1: Alliance life-cycle stages and relevant activities

Start-up	Hockey stick	Professional	Mature	Sustaining/ Declining
Conception and strategic development, planning team development, internal signoff, creation of operating plan, launch and start up. Could also be re-launch	Growth and achievement of initial growth or success-related milestones	Professionalizing of the alliance activity and metrics. Adjust team changes and maturing	Maturing stage of alliance life and restructuring of goals and milestones. Potential termination and reorganizing of team members and composition	Sustaining: Conflict resolution, redefinition of success. Lawyers play large and active role. Declining: Alliance termination or complete remediation

The following table 2.2 provides an overview of approaches towards the strategic alliance life cycle.

Table 2.2: The strategic alliance life cycle

No.	Authors	Phases
1.	Faulkner (1995)	Formation, Management, Evolution
2.	Lorange & Roos (1993)	Formation, Implementation, Evolution
3.	Mulyowahyudi (2001)	Formation, Operation, Termination
4.	Segil (1996)	Start-up, Hockeystick, Professional, Mature and Consolidating, Declining

Segil's (1996) 'start-up' can be viewed as similar to formation, while hockeystick, professional, mature and consolidating' is associated with management and evolution of the alliance, and 'declining' is related to its termination. Overall, based on the author's information, the life cycle of international strategic alliance can be divided into formation, operation, and termination phases.

The initial phase of international strategic alliance requires a thorough negotiation (Lorange & Roos, 1992; Sierra, 1995), and also intensive analytical and political consideration (Lorange & Roos, 1992; Sierra, 1995; Segil, 1996). This phase is the first determination of both negotiating partners whether to continue or terminate the intention to form the strategic alliances (Lorange & Roos, 1992). From the above analysis, it follows that the 'formation' phase in strategic alliance should be logically separated into a 'planning' phase and 'formation' phase. The planning phase is concerned with the activities of considering the alliance before the 'go' decision while the planning phase is concerned with activities after the 'go' decision, see figure 2.1.

Figure 2.1: Planning and Formation phase of a strategic alliance

Based on the previous discussion a scheme for an international equity placement can be divided into four phases, see figure 2.2.

Figure 2.2: Life cycle of an international equity placement strategic alliance

2.1.1 Alliance planning phase

In this phase, political considerations should be taken into account (Lorange & Roos, 1992). That means ascertaining the benefits of the alliance in order to have support from internal and external

stakeholders. Therefore, gaining stakeholders support is also of prime importance from a political perspective (Freeman, 1984). Furthermore, negotiation is crucial during the planning phase. This can be either between the two (potential) partners or with the associated stakeholders (Freeman, 1984). What is essential for negotiations is a mutual understanding of the cultural differences, characteristics, and management (Das & Teng, 1998; Arino, Ring, & de la Torre 2001; Pagani, 2003). Thus, whether the companies understand on cultural aspects is also important for the planning phase.

The planning phase of the international equity placement does not depend solely on political considerations but also analytical considerations. The primary activity in the planning phase is the selection of a partner. This selection of a partner is a crucial requirement to obtain ultimate success of a strategic alliance. According to Douma (1997), the strategic match between the potential partners is the most important criteria for selecting a partner. Research has shown that if no such strategic match exists between partners, and if there is no concrete prospect of improvement in the strategic situation, then an alliance is not desirable (Douma, 1997). Additionally, the capacity, complementarity, and strategic importance of the partners are also determined to be the important characteristics that should be considered in the criteria of selecting the partners (Sierra, 1995; Mulyowahyudi, 2001). Accordingly, from an analytical perspective, the determination of the strategic match is of prime importance and the capacity, complementarity, and strategic importance become a sub-part of this strategic match.

Stakeholder support

During the initial phase, it is important to ensure that major stakeholders are involved (Freeman, 1984). Stakeholder is defined as those groups without whose support the organization would cease to exist (Freeman, 1984). The purpose of this political consideration is to ensure that the prominent internal and external stakeholders will be able to realize the benefits from and support the alliances (Lorange & Roos, 1992). Additionally, key members of the top management should be willing to pursue the alliance in such a manner that they are not a threat for their power and careers (Lorange & Roos, 1992). The CEOs may be hesitant if they perceive that the prospective alliance might diminish their own discretionary power, division managers might fear becoming lost as a small part of a large alliance, employees might fear restructuring, potential loss of jobs, or additional cultural stresses. External stakeholders are also important to be considered otherwise they can resist or prevent the forming of the alliance.

Since SOEs belong to the government, they should consult with the congress or representatives before selling the shares (Moore, 1992; Basu, 1994). The government and representatives schedule

the intended SOEs, as well as discuss the criteria of prospective investors, the amount of shares to be sold, the target revenue, and prepare the necessary regulatory supports. The house and representative set up the privatization as the scheme of industry restructuring program. Notably, the representatives demand the transparency process of privatization. The state of transparency will influence the share price, the quality of partners, and finally determine the degree of success of having an improved industry and macroeconomics. The ownership structure between foreign and domestic partners in the privatization has been the focus of attentions of the house of representative (Kikeri & Nellis, 2004).

Based upon literature including Basu (1994), Clarke et al. (1994), Kaufman and Siegelbaum (1997), Kikeri and Nellis (2002, 2004), and Moore (1992), stakeholder support can be divided into: internal organization support (internal) and society support (external). The following sections will explain how stakeholder support is assessed based on these two types of support.

Internal organization support

The term internal organization relates to the labor union and management. The suspiciousness of being laid off is the main reason why labor union protests and resists the privatization, especially in the equity placement strategic alliances (Moore, 1992; Kikeri & Nellis, 2002, 2004). The form of resistances can be: staking, demonstrating, questioning share price, transparency, protesting against existing condition, and searching for political supports, with the reason of difficulty to find for employment. The management of SOEs has been spoiled by the position of the state companies (Moore, 1992; Kikeri & Nellis, 2002; Clarke, Cull, & Shirley, 2005). They are regarded to have comfort zones. The companies are flooded with fund from the government which converted to equity for the sake of social service. Despite unsatisfactory performance of the SOEs, they are not blamed for having negative earning. The SOEs are regarded as state companies aim for providing social service without having to mind of the profit. Privatization from the point of view of the management tends to demise their power and position and threaten their existences. In addition to that, issues of transparency and low share price in the privatization will ignite the opposition of management (Kikeri & Nellis, 2004). Eventually, the management potentially resists the privatization process.

The relationship between labor union and management in the organization in terms of perceptions were researched by Angle and Perry (1986). They discovered that there are high correlation between the perceptions of managers and their labor counterparts which indicated that labor and management appeared to see ambient labor-management relationship climates in such the same way (Angle & Perry, 1986: 45).

A labor union is defined as an association of workers formed for the purpose of advancing its member's interests in respect to wages, benefits, and working conditions (Merriam-Webster, 2003). Through collective bargaining, unions act as mediators between employees and employers regarding wages, benefits and other issues. Management is defined as the persons who have authority to take charge of the divisions in the company (Merriam-Webster, 2003). The same with the labor union, in the privatization, management is afraid of losing the power which is related with the lost of wages, and benefits (Ramamurti, 2000).

In this phase, the terms of labor union and management support is internal organization support. What is a foremost concern from internal organization support in the privatization process is 'rationalization' (Kikeri, Nellis, & Shirley, 1994). Rationalization is the laying off employees and management for the sake of efficiency. It can lead to lower wages and benefits and lost jobs (Kikeri et al., 1994). Wages and benefits are related to the company condition, associated with company restructuring, prior to the privatization and the plan for privatization. These variables affect the labor union's support for the intended IEPSA. Based on this, internal organization support can therefore be assessed by examining the company restructuring and the plan for privatization. The relationship of company condition prior to privatization, and plan for privatization variables with the stakeholder support is presented in figure 2.3.

Figure 2.3: Relationship of company condition prior to privatization, and plan for privatization variables with the stakeholder support

Company restructuring

The company condition prior to the IEPSA initiation plays a role in the internal organization support. Restructurization, prior to the intended IEPSA help improve the existing condition of SOEs both financially (which result in improving wages and benefits) as well as culturally which is equal treatment among the employees. These types of improvements lead to the internal organization support on the intended IEPSA (Kikeri & Nellis, 2002; Ramamurti, 2000). Governments may opt for initiating an IEPSA as a result of the urgency to improve the SOE's performance. However,

most of the governments prefer to restructure the SOEs before initiating the IEPSA based on the expectation that this will improve the sale of its shares (Kikery & Nellis, 2002; Ramamurti, 2000). Once restructuring has taken place, it is likely that the intended IEPSA will be supported by the House of Representatives. Assessment of the company condition prior to the IEPSA initiation is based on:

- If the company was restructured prior to the IEPSA initiation which has positively affected the performance of the firm then the company restructuring has a positive influence on the internal organization support.
- If prior restructuring did not take place or if poor performance continued, then company restructuring has a negative influence on the internal organization support.

Plan for privatization

The privatization scheme, including IEPSA, usually occurs during a crisis which hampers the economic conditions of the country (Ramamurti, 2000), i.e. the economy, including the raising budget deficit and rate of employment. Privatization is aimed at reducing the budget deficit. Under these circumstances, for most employees and management it is difficult to find alternative employment. Thus, at that moment, rationalization has become a sensitive issue for employees and thus also for the labor union. A guarantee that rationalization will not be applied in the intended IEPSA will help eliminate the opposition of union (Kikeri & Nellis, 2002). In the plan for the IEPSA, the partners should ensure that the business will not lay off people or even have a need for extra people. This may come from multiple angles. For example, if the company is committed to contribute to the development of industry this will translate in a need for more employees. If there are lay-offs or if business remained steady the alliance will have to absorb the extra cost in case of layoffs (Kikeri & Nellis, 2002: 27). Assessment of the plan for privatization (IEPSA) is therefore based on:

- If the new owners do not guarantee employment then the plan for privatization negatively influences internal organization support.
- If the new owners are committed to maintaining or growing employment then the plan for privatization positively influences the internal organization support.

Society support

Society is defined as a voluntary association of individuals for common ends; especially an organized group working together or periodically meeting because of common interests, beliefs, or profession (Merriam-Webster, 2003).

In the cases of IEPSA, the majority of shares of SOE are owned by the government which is controlled by house of representative. Based on Boycko, Shleifer, & Vishny (1995), societies have also stakes in corporations. Consequently, the society has interests in changes of a government's ownership in corporations (Kikeri & Nellis, 2002). In the process of IEPSA, the government's shares are transferred to a foreign partner(s). One of the objectives of this is that the government uses the incoming fund from this transaction to overcome budget deficits which will in turn affect the wealth of society (Ramamurti, 2000). Therefore, a society is interested in knowing the share price of the stock that is sold by the government (Ramamurti, 2000). Furthermore, for a society to follow the government's actions, transparency of this process is required. Lack of transparency leads to allegations of corruption and provides ammunition to political and other opponents, creating backlash from investors and the public at large, and threatens to halt privatization and liberalizing reform in general. It can be concluded that the more transparent the process is the more amount of incoming fund can be expected in the transaction as a result of higher share price (Kikeri & Nellis, 2002; Rose-Ackerman, 1999). Based on this, society's support can therefore be assessed by looking at the change in ownership structure, the share price, and the transparency of the privatization process. The relationship of change of ownership, share price, and transparency of the privatization process variables with the stakeholder support is presented in figure 2.4.

Figure 2.4: Relationship of change of ownership, share price, and transparency of the privatization process variables with the stakeholder support

Change in ownership structure

The ownership structure between government and foreign partner of the IEPSA is stipulated in accordance with the agreement between government and house of representative (Megginson & Netter, 2000). The agreement; permission from the representatives and amount of the shares sold, is the legal structure of the intended IEPSA. The transparency assessments are provided by

triangulating the primary (by interviewing the society members) and secondary data. The secondary data are those which describe the ownership structure between government and foreign partner of the IEPSA which was permitted by the representatives (during the meeting between government and representatives prior to the intended IEPSA). The society demands that the government maintains its majority stakes in the corporation (Ramamurti, 2000). Large-scale privatization can arise much popular opposition (from the society) since it may have an effect on an intangible balance of power between the private and public sectors (Van de Walle, 1989). According to De Castro and Uhlenbruck (1997), in a less-developed countries government favor for a majority ownership to show that “assets are not being given away to foreigners”. Afterwards, the government’s ownership can be reduced gradually (Ramamurti, 2000). Based on this:

- The change in ownership structure has a negative influence on society support if 1) actual ownership structure after the initiation process of IEPSA deviates from the agreement between government and representatives, and 2) if the government loses its majority stake in the corporation.
- The change in ownership structure has a neutral influence on society support if one of the following conditions occurs, either 1) actual ownership structure after the initiation process of IEPSA deviates from the agreement between government and representatives, or 2) if the government loses its majority stake in the corporation.
- The change of ownership structure has a positive influence on society support if ownership structure in the IEPSA changed to 1) a new ownership structure that conforms to the agreement and 2) the government maintains a majority stake.

Share price

The corporate valuation is necessary to determine the fair value of the company which intends to form an IEPSA. The fair value determination of equity being offered is a necessary prerequisite for the partners. The offering value below its fair value will lead to difficulty when dealing with stakeholders. On the other hand, the offering value above its fair value will negatively affect the willingness of potential partners to purchase. According to Damodaran (2002), there are three methods of firm valuation, which are:

1. DCF Valuation, it estimates the value of an asset by calculating the present value of expected future cash flows using Free Cash Flow to Equity (FCFE) and Economic Value Added (EVA) (Damodaran, 2002: 11)

2. Relative Valuation, it estimates the value of an asset by looking at the pricing of 'comparable' assets relative to a common variable like earnings, cash flows, book value or sales (Damodaran, 2002: 18)
3. Contingent Valuation, it uses option pricing models to measure the value of assets that share option characteristic (Damodaran, 2002: 22)

The DCF valuation used the data of current book value and future cash flow as well as the added value (Damodaran, 2002) while the relative valuation is based solely on pricing of comparable assets without taking into consideration the future cash flow or added value (Damodaran, 2002). Finally, the contingent valuation is appropriate for long-term equity options and trade stocks, warrants, and project management valuation (Damodaran, 2002).

Ramamurti (2000) states that the selling price of the SOE in the privatization should take into account the potential growth of market and industry in the future otherwise most of the SOEs potentially sold with low value. The privatizations are mostly held during the downturn of economic conditions which hampered not only the industry but also the capital market. Because of the condition, the appropriate valuation (based on the already mentioned methods) is the DCF valuation. The relative valuation is not viable since the comparable assets are still in the weak conditions. The DCF valuation itself consists of Free Cash Flow to Equity (FCFE) and Economic Value Added (EVA) valuations (Damodaran, 2002).

Based on the following definition (Damodaran, 2002):

Market value: the valuation of the firm which is undertaken based not only on the current condition but also opportunity earning in the future (Damodaran, 2002).

Book value: the valuation of the firm which is based on current accounting value of the firm and neglected the opportunity earning (Damodaran, 2002).

The economic crisis will potentially reduce the opportunity cash flow of the company, and increase the cost of capital including cost of debt as well as cost of equity. The increase of raw materials will affect to the increasing price of cost of goods sold. Ultimately, the offering prices of products and services to the customers become more expensive. During the economic crisis, the consumers tend to be more cautious of spending their money. So, not only the offering price becomes higher but also the demands from customers become lower. The situation leads to the decreasing cash flow of the company that further negatively correlates with the company's valuation and offering prices. When considering solely on the book value as the base of valuation and combined with the downfall of economic condition (during which most IEPsAs took place), it will potentially result with low selling price (Ramamurti, 2000). However, when the market value is used, which Damodaran

(2002) proposes using the DCF valuation, the valuation can be done with several stages; during the economic crisis, after the economic crisis to normal condition, and steady state condition. This valuation takes into account the current condition of the SOE but also the potential market condition when the economic condition alleviates. The investors take into considerations not only current condition of the investment, but also the potential gain that can be grasped in the future. The valuation itself should be undertaken in accordance with the belief. Consequently, the market value approach is more appropriate than the book value. Moreover, in practice Damodaran (2002) suggests using DCF valuation during the economic instability than other valuation methods.

Discounted cash flow

According to discounted cash flow model the corporate value is the sum of all the cash flow within the economic life. The formula of valuation based on DCF is (Damodaran, 2002):

$$\text{Value} = \sum_{t=1}^{t=n} \frac{CF_t}{(1+r)^t}$$

Where n is the economic life of the asset or investment (usually expressed in years), CF_t is the expected cash flow in period t, and r is the discount rate that reflects the perceived riskiness of the cash flow.

First, Free cash flow of equity (FCFE) is defined as the cash available to equity holders after investment. The corporate valuation using the free cash flow of equity (FCFE) can be obtained using the following formula (Damodaran, 2002).

Free cash flow to equity = Net Income – (Capital expenditures – Depreciation) – (Change in non cash working capital) + (New debt issued – Debt repayments).

The value of any corporation is the present value of the FCFE per year for the extraordinary growth period plus the present value of the terminal price at the end of the period.

Value = PV of FCFE + PV of terminal price

$$= \sum_{t=1}^{t=n} FCFE_t / (1 + k_{e,hg})^t + P_n / (1 + k_{e,hg})^n$$

Where $FCFE_t$ = Free cash flow to equity in year t

P_n = Price at the end of the extraordinary growth period

k_e = Cost of equity in high growth (hg) and stable growth (st) periods

The terminal price is generally calculated using the infinite growth rate model:

$$P_n = FCFE_{n+1} / (k_{e,st} - g_n)$$

where g_n = Growth rate after the terminal year forever

The FCFE method will be applied to evaluate the fair value of the cases in Indosat and Semen Gresik.

Second, Residual income valuation is the valuation method using the concept of economic value added, where the company is considered value added when the return on asset is above its weighted average cost of capital. EVA can be obtained in the following formula (Young & O'Byrne, 2001):

$$EVA = (RONA - WACC) \times \text{invested capital}$$

Where $RONA = NOPAT \div \text{net assets}$

$WACC = \text{Weighted average of cost of capital (cost of equity and cost of debt)}$

$RONA = \text{Return on Asset}$

$NOPAT = \text{Net Operating Profit After Tax}$

When $RONA$ is greater than $WACC$, EVA is positive, and when $RONA$ is less than $WACC$, EVA is negative.

The market or fair value using this method can be obtained in the following formula:

Market value = Invested capital + accumulated present value of future EVA

$$P_o = B_0 + \sum_{j=1}^{\infty} \frac{E_j - rB_{j-1}}{(1+r)^j} = IC_0 + \sum_{j=1}^{\infty} \frac{NOPAT_j - (WACC_j \times IC_{j-1})}{(1+WACC_j)^j}$$

$$P_0 = B_0 + \sum_{j=1}^{\infty} \frac{(ROE_j - r)B_{j-1}}{(1+r)^j} = IC_0 + \sum_{j=1}^{\infty} \frac{(RONA_j - WACC_j) \times IC_{j-1}}{(1+WACC_j)^j}$$

Where: P_0 = Market value/fair value in year 0

B_0 = Book value in year 0

E_j = Earning in year j

r = cost of capital

B_{j-1} = Book value in year j-1

ROE_j = Return on equity in year j

IC_0 = Invested capital in year 0

IC_{j-1} = Invested capital in year j-1

Free cash flow of equity valuation is applied to evaluate the value of cases in Indosat and Semen Gresik. While, the residual income valuation method is applied to the cases in Bank Central Asia, Bank Niaga, Bank International Indonesia, and Bank Permata.

According to Malhotra (2003) the best alternative of share price is provided based on the fair value of the company which takes into account not only the current condition but also the expected future condition.

The validity of the measurement can be judged by having secondary data from different sources to determine the book value and stock price of the company. The determination of company's fair value will be provided by calculating the free cash flow of the firm from the financial data (balance sheets and income statements) of the intended IEPSA. The result of the company's fair value

calculation is compared with the secondary data and primary data (from the interview of respondents in the society members).

To determine the influence of share price on society's support for the IEPSA, the actual price of shares is compared with the fair value. The lower is the actual share price compared to the fair value, the more negative influence does it contribute to the society support.

- If the actual share price is more than the fair value, then share price has a positive influence on society support.
- If the actual share price is the same as the fair value, then share price has a neutral influence on society support.
- If the actual price is below the fair value, then the share price has a negative influence on society support.

Transparency of the privatization process

Putting transparency into place requires a host of measures. Speed and full transfer of assets, without special privileges and concessions for insiders, is crucial, particularly in the case of competitive enterprises (Kikeri & Nellis, 2002: 26). The most effective way is promoting competition in the transaction process (Kikeri & Nellis, 2002). In general, the greater the openness and competition in the selection process the greater the likelihood that transparency will be achieved. Transparency assessments are provided by triangulating the primary (by interviewing the society members) and secondary data.

Therefore, the influence of transparency on society support is determined by examining two potential negative issues in the tendering process. These negative issues are 1) fixing of the share price, and 2) bribing the ruling political party.

- If no negative issue occurred in the tendering process, then transparency has a positive influence on society support.
- If negative issue(s) occurred then transparency has a negative influence on society support.

Conclusion of stakeholder support assessment

Based on the data findings in the internal organization support and society support, the assessment of the stakeholder support on the IEPSA is undertaken through the following conditions.

- If there are positive influences on both internal organization support and society support then there is a stakeholder support to the IEPSA.
- If there are negative influences on both internal organization support and society support then there is disapproval from stakeholder to the IEPSA.

- If there is one positive sub-factor and one negative sub-factor between internal organization support and society support then there is a neutral stakeholder support to the IEPSA.
- If there are neutral influences on both internal organization support and society support then there is a neutral stakeholder support to the IEPSA.

Strategic match

During the planning phase, the partners will search for potential partners that are in line with their capability and resources, and provide benefit to their long-term strategic objectives. The potential partners are those who form a match with the partner's strategic objective and motivate themselves to form the alliance. Medcof (1997: 721) states that there are several reasons of alliance failure, but that many authors agree that poor selection is among the most important ones. This poor selection will provide difficulties for partners to find the required strategic match. In contrast, a well-chosen partner allows a synergy which may blossom into outcomes far beyond expectations (Medcof, 1997: 721). There are five criteria for selecting alliance partners, which consists of whether the alliance has business strategy rationale that will lead to the strategic fitness; whether the prospective partner capable of carrying out its role in the alliance; whether the prospective partners operationally compatible, and whether the prospective partner committed to the alliance and its objective and able to control arrangements for appropriate coordination (Medcof, 1997).

Niederkofler (1991) defines strategic match as follows: "Strategic match exists when the partners' interest in a specific area overlap, and when each control part of the resources needed to pursue the shared goals". In order to create a successful strategic alliance both parties must have strategic match that is reconcilable and this match must be quite explicitly stated and established early on (Lorange & Roos, 1992). Moreover, Sierra (1995) and Medcof (1997) state that commitment between partners is essential in order to obtain the strategic match. Sierra (1995) states that a lack of strategic match is one of the reasons why the alliances terminate which consists of changes in strategic objectives and focus, false expectations about partners' capabilities, and inability to cope with diverse management styles. Almost by definition the two parties will come to the table with different strategic intents (Lorange & Roos, 1992: 28). They will seek different benefits from the strategic alliance in relation to their respective strategic objectives. The two different strategic intents must, however, be sufficiently compatible to leave room for cooperation (Lorange & Roos, 1992: 28). Faulkner (1995), points out that the fundamental issue in assessing the strategic match is whether their joint value chain seems likely to achieve sustainable competitive advantage for the partners, through the complementarity of their resource endowments and core competencies.

However, once the prospective partners have found that they complement each other than they should also take into account the strategic importance of the partners (Douma, 1997).

Based on this discussion, in this research the strategic match is defined as:

“There is a strategic match when both partners find conformity of their respective strategic importance and objectives after analyzing the prospective partner’s strategic objectives, position and resources and provided that trust and commitment for cooperation is established”.

In the planning phase, the analytical consideration concerns the early assessment of the strategic match between the prospective partners (Lorange & Roos, 1992; Faulkner, 1995; Yoshino & Rangan, 1995). Niederkofler (1991) states the requirement of overlap of each other’s resources that meet partners’ interests. Lorange & Roos (1992) emphasize complementarity and reconcilable of resources and strategic position. Faulkner (1995) suggests that there should be complementarity of resource endowments and core competencies. Both Sierra (1995) and Segil (1996) suggest a compatibility of partners’ capabilities. Sierra (1995) adds commitment between the partners and Segil (1996) also uses the term complementarity despite compatibility. Medcof (1997) differentiates the strategic match into operation, business, and strategy which need to be synergized between partners. Douma (1997) emphasizes that the strategy and organization of the partners should add value to the alliance and there should be also strategic importance between partners which consist of analysis of pressure on continuity, new chances in the market, pressure of time on alliance, and alternative to cooperation.

All of the mentioned authors; Niederkofler (1991), Lorange & Roos (1992), Sierra (1995), Segil (1996), Medcof (1997), Douma (1997) differentiate the strategic match factor into several sub factors as presented in table 2.2. The strategic match factor can be differentiated into three sub-factors; capacity, complementarity, and strategic importance. Capacity refers to the partner’s value activities both in the primary activities; logistics, operations, marketing and sales, and service as well as in the supporting activities; firm infrastructure, human resource management, technology development, and procurement (Porter, 1998). It also refers to the partner’s strategy of planning and implementing those value activities. The assessment of partner’s capacity can be differentiated into country level, industry level, and country level (Basu, 1994; Ramamurti, 2004).

Macro consideration. It is defined as the assessment of partner’s outside firm and industry level which is the country level. The scope of considerations in the country level is macro environment and regulatory state and requirement (Basu, 1994; Ramamurti, 2004). The macro environment consists of macroeconomic, benefits of alliance for economic development, and shares price (Basu, 1994; Ramamurti, 2004). The regulatory state and requirement comprises of transparency and donor pressure. Basu (1994) and Ramamurti (2000) state that the indicators to be measured in

macroeconomic are Gross Domestic Product (GDP) growth, inflation rate, capital market index, and interest rate. They also state that the indicators of benefits of alliance for economic development are competitive industrial environment, and economic development. According to Kikeri and Nellis (2002) and Damodaran (2002), the indicators to be assessed in the shares price is the comparison of selling price with the share price in capital market and fair or fundamental value. Basu (1994), states that the assessments in the regulatory state and requirement consist of transparency and donor pressure. The indicators in transparency are the state of transparency in tendering process and sales and purchase agreement (Kaufmann & Siegelbaum, 1997; Kikeri & Nellis, 2002). Bennell (1997), states that the indicator in donor pressure assessment is the presence of donor organization which supports the privatization.

Micro consideration. It is defined as the considerations of partner's capacity upon the firm and industry level. According to Mockler (1999), micro considerations of partner's capacity consist of market, alliance track record, product or service, technology, and financial performance.

The indicators of market are market share, and growth of market (Cravens& Piercy, 2006). The alliance track record is one of the assessments in micro consideration. Its indicators consist of partner's experiences of forming strategic alliances and state of successfulness in performing strategic alliances. Mockler (1999) states that the indicators of assessing the product or service range of quality and innovativeness of product or service. Furthermore, the technology indicators consist of technology of product or service and information technology (Mockler, 1999). Mockler (1999) also provides indicators of assessment in financial position which are Return on Equity (ROE), Return on Asset (ROA), asset number, growth of asset, and growth of revenue.

Complementarity refers to both partners' capacities; whether they are overlapped, reconcilable, compatible, and synergized that will potentially provide added value to the alliances. Finally, the partner's commitment is assessed in the strategic importance sub factor, which consist analysis of pressure on continuity, new chances in the market, pressure of time on alliance, and alternative to cooperation which conforms Douma (1997).

Table 2.3: The sub-factors of strategic match

Author	Capacity	Complementarity	Strategic Importance
Niederkofler (1991)	Resources	Partners' interest overlap	-
Lorange & Roos (1992)	Resource, strategic position	Reconcilable Complement	-
Faulkner (1995)	Resource endowments, core competencies	Complementarity of resource endowments, core competencies	-
Sierra (1995)	Capability	Compatibility	Commitment
Segil (1996)	Resource, strategy,	Compatibility/Comple-	-

Author	Capacity	Complementarity	Strategic Importance
	Organization	mentarity	
Medcof (1997)	Operation, business, strategy	Synergy in operational, business, strategy	Commitment
Douma (1997)	Strategy, organization	Added value	Strategic importance

Capacity: The capacities of the potential partners are of prime importance (Sierra, 1995; Lorange & Roos, 1992; Mockler, 1999). According to Medcof (1997: 722), it is the criteria, which determines whether an alliance is workable operationally and relates to whether the prospective partners have the ability to carry out their roles in the alliance. According to Sierra (1995: 21), before seriously approaching any prospective ally, the capacities of the targeted candidates should be subjected to a rigorous test. The term ‘capabilities’ here refers to ‘capacities’ of the targeted partners. Sierra (1995: 21) states that many alliance practitioners recommend establishing a team of experts to undertake a feasibility study of each candidate. “It’s better to allow time during negotiations for partners to get to know each other and to test and develop personal chemistry, especially through reconciling anticipated areas of possible conflict” (Mockler, 1999: 88). The team should be prepared to undertake a tough, critical examination of a potential partner. Consequently, the complete examination of a potential partner consists of: examining the environmental conditions, understanding the legal and regulatory environment, and finally examining the internal conditions. Based on Ramamurti (2000), the analysis of partner’s capacity sub-factor can be differentiated into macro and micro components. Basu (1994) and Ramamurti (2000) infer that the macroeconomic analysis of the host country relates to the attractiveness of the macroeconomic conditions. The micro components are at the level of the industry and firm. It can be differentiated into the attractiveness of market, the alliance track record, the attractiveness of product or service, the attractiveness of technology, and the attractiveness of financial performance (Hitt, Dacin, Levitas, Arregle, & Borza, 2000).

Attractiveness of macroeconomic conditions

In the privatization, the economic distance between the country of foreign investor and the host country matters (Tsang & Yip, 2007; Ghemawat, 2001). Economic distance was measured as the difference, in U.S. Dollars, in the real per capita gross domestic product (GDP) between the foreign country and a host country in the first year of an FDI. For a complementary reason, the economic distance is necessary for partners. However, Tsang and Yip (2007) reveal that the higher the economic distance would lead to the more hazard rates. Generally, countries that did not experience economic crisis were slow to privatize the SOEs (e.g., Asian countries, such as China, India,

Indonesia, and Korea). Following the economic crisis, Indonesia and Korea came under pressure to privatize SOEs to bolster their foreign exchange: reserves and satisfy IMF conditionality.

In the state of crisis, it is not possible for SOEs to seek help from the government to additional financing that converted to government's equity in the SOEs. The government simply run out of cash and deteriorate with further budget deficit. Ramamurti (2000) states SOEs in troublesome macroeconomic countries are more likely to be privatized than those in stable macroeconomic countries. The privatization usually occurs when the economic condition is deteriorated (Ramamurti, 2000). It also happens when the government needs to restructure the industry and economic and the government simply run out of cash and deteriorate with further budget deficit (Ramamurti, 2000). However, it takes time (Ramamurti, 2000). On the other hand, during economic crises, governments are strapped for funds and want to get the highest possible price of selling the SOEs directly to a private company or to a consortium of investors (Ramamurti, 2000; Megginson, 2000).

Privatization agenda should have backward linkages as part of a wider economic reform package (Basu, 1994). The government should revive fiscal discipline, destabilize the exchange rate in order to revive trade discipline, and remove subsidies (Basu, 1994).

Attractiveness of macroeconomic conditions is determined by the gross domestic product (GDP) growth and currency rate (Blanchard, 2010). GDP growth is the indicator of economic growth (Blanchard, 2010). By definition, the currency rate is the price of one country's currency expressed in another country's currency (Blanchard, 2010). Based on this, the relationship of GDP growth and currency rate variables with the strategic match is presented in figure 2.5.

Figure 2.5: Relationship of GDP growth and currency rate variables with the strategic match

GDP growth

In the planning phase, one of the important assessments of the macroeconomic conditions is the economic growth of the host country which can be measured by the GDP growth (Blanchard,

2000). Strategic alliance is a part of strategic planning of the company. According to Wheelen and Hunger (2010), the standard of time horizon of analyzing country's macroeconomic condition including the GDP growth is three to five years period prior to the alliance. IEPSA is part of cooperative strategy of the company's business strategy and part of strategic management (Wheelen & Hunger, 2010). Likewise, since the strategic management is planned within the three to five years period then the time horizon of macroeconomic analysis is set within the same period. However, looking into the nature of the alliance that it is destined to terminate (Porter, 1998) and considering the rapid changes of business environment. Hence, the preferred time horizon of analysis in capacity sub-factor (including the macroeconomic conditions) is three years. The assessment of GDP growth is undertaken by the real interest rate. It is the difference between GDP growth and inflation rate (reflects both the consumer's price index and the interest rate in the country) (Blanchard, 2010). Positive real interest rate leads to favorable macroeconomic conditions and vice versa. Therefore, assessment of the attractiveness of macroeconomic conditions based on the GDP growth analysis is undertaken in the following condition.

- If the GDP growth is above the inflation rate (positive real interest rate) within the last three years then the GDP growth has a positive influence on the attractiveness of macroeconomic conditions.
- If the GDP growth is the same as or below the inflation rate (negative or neutral real interest rate) within the last three years then the GDP growth has a negative influence on the attractiveness of macroeconomic conditions.
- If the GDP growth fluctuated above and below the inflation rate within the last three years then the GDP growth has a neutral influence on the attractiveness of macroeconomic conditions.

Currency rate

The currency rate is one of the important variables which determine the attractiveness of macroeconomic conditions (Blanchard, 2010). In this research, it is the price of one U.S. Dollar (US\$) in one Indonesian Rupiah (IDR). The attractive currency rate is the one which is constant within a period of time. The definition of constant is that the currency rate only fluctuates within a range of maximum of 10% within the designated period. The domestic currency rate which suddenly strengthen or weaken relative to US\$ can be considered unattractive as the condition will negatively influence the country's balance of trade (Blanchard, 2010). For example, 20% raise of currency rate will increase the price of exported products. On the other hand, 20% weakened currency rate will decrease the price of imported products. Both conditions negatively influence the

country's balance of trade, i.e. the industry should adjust to the impact of the currency rate fluctuation. Therefore, assessment of the macroeconomic conditions based on the analysis of currency rate can be attained in the following condition:

- If the currency rate of one US\$ to IDR is constant or only fluctuated in the range of 10% within the last three years then the currency rate has a positive influence on the attractiveness of macroeconomic conditions.
- If the currency rate of one US\$ to IDR is fluctuated from 10% to 20% within the last three years then the currency rate has a neutral influence on the attractiveness of macroeconomic conditions.
- If the currency rate of one US\$ to IDR fluctuated (above 20% of fluctuation) within the last three years then the currency rate has a negative influence on the attractiveness of macroeconomic conditions.

Attractiveness of market

According to Hitt et al. (2000), Lorange and Roos (1992), and Mockler (1997), the market share and growth of market are one of the important aspects in assessing the partner. In terms of market share, the partner with attractive market share is the one which possessed one of the dominant shares in the market (Cravens & Piercy, 2006). The growth of market can be considered attractive when the life cycle of the market industry is in the phase of introductory or growth (Cravens & Piercy, 2006). Otherwise, in the mature and declining phase of industry life cycle, the growth of market can be considered unattractive (Cravens & Piercy, 2006). Based on this, the relationship of market share and growth of market variables with the strategic match is presented in figure 2.6.

Figure 2.6: Relationship of market share and growth of market variables with the strategic match

Market share

Referring to Cravens and Piercy (2006), assessment of attractiveness of market based on the analysis of market share is presented in the following condition:

- If the market share is dominant reflected in the rank of market share which is among one third of the top level domain of the players in the industry then the market share has a positive influence on the attractiveness of market.
- If the market share is among one third of the median level domain of the players in the industry then the market share has a neutral influence on the attractiveness of market.
- If the market share is among one third of the lowest level domain of the players in the industry then the market share has a negative influence on the attractiveness of market.

Growth of market

In the context of developing countries where the industry is in the growth phase, then it is desirable to form alliance with the firm whose growth of the market exceed 10% (Damodaran, 2003). Therefore, assessment of attractiveness of market based on the analysis of growth of market is presented in the following condition:

- If the percentage of growth of the industry is more than or equal with 10% then the growth of market has a positive influence on the attractiveness of market.
- If the percentage of growth of the industry is less than 10% then the growth of market has a negative influence on the attractiveness of market.

Alliance track record

According to Hitt et al. (2000) and Mockler (1997), in assessing the partner in terms of alliance track record, one should analyze the partner's experience and partner's successfulness in implementing the alliances as presented in figure 2.7.

Figure 2.7: Relationship of partner's experience and partner's successfulness variables with the strategic match

Partner's experience

Partner's experience is related with forming the alliance's experiences with both local and foreign partner (Hitt et al., 2000; Mockler, 1997). Prospective partner who has experienced strategic

alliances especially with the foreign partners tended to have a positive influence on the alliance track record (Hitt et al., 2000). Therefore, assessment of alliance track record based on the partner's experience in the strategic alliance is provided with the following conditions:

- If the partner has experienced strategic alliance both with local and foreign partners, then the partner's experience has a positive influence on the alliance track record.
- If the partner has experienced strategic alliance only with local partner, then the partner's experience has a neutral influence on the alliance track record.
- If the partner has experienced strategic alliance with both foreign and local partners while another partner has not formed alliance or only with local partner then the partner's experience has a neutral influence on the alliance track record.
- If the partner hasn't experienced any strategic alliances before, then the partner's experience has a negative influence on the alliance track record.

Partner's successfulness

Referring to Hitt et al. (2000) and Mockler (1997) who stated that prospective partner who has formed successful strategic alliances tends to form a successful alliance. Therefore, assessment of alliance track record based on the analysis of partner's successfulness in terms of experience in the strategic alliance is provided with the following conditions:

- If the partner has experienced successful strategic alliances with the majority of partners, then the partner's successfulness has a positive influence on the alliance track record.
- If the partner has not formed any strategic alliances before, then the partner's successfulness has a neutral influence on the alliance track record.
- If the partner has experienced unsuccessful alliances with the majority of partners, then the partner's successfulness has a negative influence on the alliance track record.

Attractiveness of product or service

Technical capabilities are one of the priorities to be assessed by partners (Hitt et al., 2000). Technical capabilities refer to attractiveness of product or service which is produced by the partner. According to Mockler (1997), in assessing the partner in terms of attractiveness of product or service, one should analyze the quality and innovativeness of product or service. The assessment is taken based on the perception about the quality and innovativeness. The assessment can be made based on the primary data, through interviewing customers and conducting due diligence to the site, or based on secondary data which is provided by the previous reports. Referring to Hitt et al. (2000)

and Mockler (1997), the relationship of quality and innovativeness of product or service variables with the strategic match is presented in figure 2.8.

Figure 2.8: Relationship of quality and innovativeness of product or service variables with the strategic match

Quality of product or service

The quality of product or service can be considered as good when it exceeds customer's expectation. According to Garvin (1984), the dimension of quality of product include the following; performance (the basic operating characteristics of a product, features, reliability (the probability that a product will operate properly within an expected time frame), conformance (the degree to which a product meets pre-established standards), durability (how long the product lasts), serviceability (the ease of getting repairs, the speed of repairs, and the courtesy and competence of the repair person), aesthetics (how a product looks, feels, smells, or, tastes), safety (assurance that the customer will not suffer injury or harm from a product), and other perceptions (subjective perceptions based on brand name, advertising, and the like). Related to the quality of service, Evans and Lindsay (1996) states that the dimensions of service quality compose of; time and timeliness (how long a customer must wait for service, and if it is completed on time), completeness (is everything the customer asked for provided?), courtesy (how customers are treated by employees), consistency (is the same level of service provided to each customer each time?), accessibility and convenience (how easy it is to obtain the service), accuracy (is the service performed right every time?), and responsiveness (how well the company reacts to unusual situations). Therefore, based on the customer's perception, due diligence, or secondary data on the quality of product or service, assessment of the attractiveness of product or service is provided in accordance with the following conditions:

- If the quality of product or service is good then it has a positive influence on the attractiveness of product or service.

- If the quality of product or service is poor then it has a negative influence on the attractiveness of product or service.

Innovativeness of product or service

Innovativeness is defined as the company's proclivity towards the adoption of new technologies, thus representing its ability to adapt to different opportunities (Kitchell, 1995). Innovativeness can be regarded as good when it is able to adapt to different opportunities. Therefore, based on the customer's perception, due diligence, or secondary data on the innovativeness of products or services, assessment of the attractiveness of product or service is provided in accordance with the following conditions:

- If the partner's innovativeness of product or service is adapting to different opportunities then it has a positive influence on the attractiveness of product or service.
- If the product or service is not adapting to different opportunities then it has a negative influence on the attractiveness of product or service.

Attractiveness of technology

According to Mockler (1997), the assessment of attractiveness of technology can be obtained based on the analysis of technology of product or service and information technology. The former relates with the assessment of technology on producing the product or service while the latter is about the assessment of information technology which integrates the activities. Based on this, the relationship of technology of product or service and information technology variables with the strategic match is presented in figure 2.9.

Figure 2.9: Relationship of technology of product or service and information technology variables with the strategic match

Technology of product or service

Based on the customer's perception, due diligence, or secondary data on the technology of product or service and referring to Mockler (1997), assessment of the attractiveness of technology is provided in accordance with the following conditions:

- If the technology of product or service is categorized as good in the industry then it has a positive influence on the attractiveness of technology.
- If the technology of product or service is not categorized as good in the industry then it has a negative influence on the attractiveness of technology.

Information technology

Partner's information technology can be regarded as attractive when the value chain activities, from primary activities to supporting activities have been integrated by the information technology (Porter, 1998). Therefore, based on the customer's perception, due diligence, or secondary data on the information technology and referring to Mockler (1997) and Porter (1998), assessment of the attractiveness of technology is provided in accordance with the following conditions:

- If the information technology has been integrated in the organization then the information technology has a positive influence on the attractiveness of technology.
- If the information technology has not been integrated in the organization then the information technology has a negative influence on the attractiveness of technology.

Attractiveness of financial performance

The analysis of partner's attractiveness of financial performance is one of the priorities of any firms which undertake the strategic alliance (Hitt et al., 2000). According to Mockler (1997), the assessment of partner's financial performance can be differentiated into analysis of partner's profitability and growth of revenue. Based on this, the relationship of profitability and growth of revenue variables with the strategic match is presented in figure 2.10.

Figure 2.10: Relationship of profitability and growth of revenue variables with the strategic match

Profitability

Profitability of the firm is measured by the firm's Return on Asset (ROA) (Damodaran, 2003). The partner can be determined as attractive when the ROA exceeds its Weighted Average Cost of Capital (WACC) (Damodaran, 2003). Therefore, assessment of the attractiveness of financial performance based on the analysis of profitability is provided with the following conditions:

- If the company's ROA is more than or equal with the WACC then the profitability has a positive influence on the attractiveness of financial performance.
- If the company's ROA is less than the WACC then the profitability has a negative influence on the attractiveness of financial performance.

Growth of revenue

Based on Damodaran (2003), in the context of developing country where the industry is still growing, the attractive annual growth of revenue is the one which exceeds 10%. This growth is needed in order to secure added value. When the growth is between 0% and 10%, the firm is still considered as growing although it is not appropriate to secure added value (Damodaran, 2003). Referring to Damodaran (2003), assessment of the attractiveness of financial performance based on the analysis of growth of revenue is provided with the following conditions:

- If the growth of revenue is more than 10% then the growth of revenue has a positive influence on the attractiveness of financial performance.
- If the growth of revenue is between 0% and 10% then the growth of revenue has a neural influence on the attractiveness of financial performance.
- If the growth of revenue is below 0% then the growth of revenue has a negative influence to the attractiveness of financial performance.

Capacity assessment

Overall, in terms of Capacity assessment, by compiling data findings in the components, assessment of the capacity on the strategic match is undertaken through the following conditions.

- If there are positive influences on most of the components then the overall influence of capacity on strategic match is positive.
- If there are majority of non-positive influences on the components then the overall influence of capacity on strategic match is negative.
- If there are balanced positive and non-positive influences on the components then the overall influence of capacity on strategic match is neutral.

Complementarity: The fundamental issue in assessing a strategic match is whether the alliance chain seems likely to achieve sustainable competitive advantage for the partners, through the complementarity of their capacities (Sierra, 1995; Douma, 1997). If the combination of the partners' skills and resources seems unlikely to achieve competitive advantage, then, irrespective of how the alliance is set up, it is not desirable (Douma, 1997). Hitt et al. (2000) state that complementarity is one of the assessment priorities that should be considered by partners. Lei and Slocum (1992) and Park, Chen, and Gallagher (2002) infer that partners should be motivated by the differences in resources which will result with enhancement of the strategic alliance's capability. Douma (1997) obtains that the complementarity of partner's resources can be assessed by the complementarity related to the attractiveness of market, strategy, and attractiveness of resources. Therefore, related to the aforementioned components in the capacity sub-factor, the relationship of complementarity sub-factor with the strategic match is presented in figure 2.11.

Figure 2.11: Relationship of complementarity sub-factor with the strategic match

Complementarity related to the attractiveness of market

In terms of market, the partners can be considered complementary each other when the foreign partner's market is in the state of maturity or declining and the domestic partner's market is in the introductory or growth period where the partners benefit each other (Cravens & Piercy, 2006; Ireland, Hoskisson, & Hitt, 2011). Therefore, assessment of complementarity based on the complementarity related to the attractiveness of market can be undertaken based on the following condition:

- If the foreign partner's market is in the state of maturity or declining and domestic partner's is either in introductory or growth period, then the complementarity related to the attractiveness of market has a positive influence on the complementarity.
- If both partner's markets are in the growth period, then the complementarity related to the attractiveness of market has a neutral influence on the complementarity.

- If the foreign partner's market is in the state of either introductory or growth and domestic partner's is in the state of maturity or declining, then the complementarity related to the attractiveness of market has a negative influence on the complementarity.

Complementarity related to the strategy

The term strategy is focused on the corporate strategy ranging from the growth, stability, retrenchment, and diversification (Wheelen & Hunger, 2010) which will be compared with the strategy of the partners to assess its complementarity. The strategy can be considered complementary when the foreign partner has a growth strategy and the domestic partner has either turnaround or growth strategy (Ireland et al., 2010). Therefore, assessment of complementarity based on the complementarity related to the strategy can be undertaken based on the following condition:

- If the foreign partner has a growth strategy and the domestic partner has either turnaround or growth strategy, then the complementarity related to the strategy has a positive influence on the complementarity.
- If the foreign partner does not have a growth strategy regardless of the domestic partner's strategy, then the complementarity related to the strategy has a negative influence on the complementarity.

Complementarity related to the attractiveness of resources

Broad in scope, resources cover a spectrum of individual, social, and organizational phenomena (Lester, Hillman, Zardkoohi, & Cannella, 2008). There are two types of resources which are tangible and intangible resources (Ireland et al., 2010). The four types of tangible resources are financial, organizational, physical, and technological (see table 2.4). Three types of intangible resources are human, innovation, and reputational (see table 2.5). Having compared types of tangible and intangible resources with the reference to the capacity sub-factor and cultural understanding factor, it is obtained that the complementarity of resources consists complementarity related to the attractiveness of financial performance, product or service, and technology. Complementarity related to the attractiveness of financial performance includes the ability of partner's financial resources reflected in the profit, i.e. ROA, and availability of partner in acquiring cheap fund in securing the financial objective, i.e. increasing revenue and profitability (Ireland et al., 2010). According to Hellriegel et al. (2001), the complementarity of organization resources between partners can be acquired by the good trust and commitment reflected in the cultural understanding factor in the context of IEPSA. Referring to Ireland, et al. (2010), the product or

service is the main physical resources of the partner. As mentioned by Mockler (1997), the attractiveness of product or service consists of quality and innovativeness of product or service (discussed in the capacity sub-factor). Eventually, technology is one of the resources within the tangible resources. Based on Mockler (1997), attractiveness of technology consists of technology of product or service and information technology (discussed in the capacity sub-factor).

Table 2.4: Tangible resources

No.	Tangible Resources	Referred to the capacity sub-factor and cultural understanding factor
1.	Financial Resources	Attractiveness of financial Performance
2.	Organization Resources	The discussion about complementarity of organizational resources are presented in the cultural understanding factor
3.	Physical Resources	Attractiveness of product or service (in the quality of product or service variable)
4.	Technological Resources	Attractiveness of technology

In terms of intangible resources, the complementarity related to human resources can be tackled by the good trust and commitment between partners (Das & Teng, 1998) as has been analyzed in the cultural understanding factor. Moreover, analysis of innovation resources and reputational resources are presented in the innovativeness of product or service and alliance track record section sections within the capacity sub-factor.

Table 2.5: Intangible resources

No.	Intangible Resources	Referred to the capacity sub-factor and cultural understanding factor
1.	Human Resources	The discussion about complementarity of human resources are presented in the cultural understanding factor
2.	Innovation Resources	Attractiveness of product or service (in the innovativeness of product or service variable)
3.	Reputational Resources	The discussion about reputational resources are presented in the capacity sub-factor (in the alliance track record)

Complementarity related to the attractiveness of financial performance: Based on Hitt et al. (2010), the assessment of complementarity related to the attractiveness of resources based on complementarity related to the attractiveness of financial performance is presented in the following conditions:

- If the partners benefit each other from the financial performance in terms of securing its financial objective (increasing revenue and profitability), then the condition has a positive influence on the complementarity related to the attractiveness of resources.

- If the partners can not benefit each other from the financial performance in terms of securing its financial objective (increasing revenue and profitability), then the condition has a negative influence on the complementarity related to the attractiveness of resources.

Complementarity related to the attractiveness of product or service: Referring to Ireland et al. (2010) and Mockler (1997), the assessment of complementarity related to the attractiveness of resources based on the complementarity related to the attractiveness of product or service is presented in the following conditions:

- If the partners benefit from the product or service in terms of quality and innovativeness, then the condition has a positive influence on the complementarity related to the attractiveness of resources.
- If the partners benefit from the product or service in terms of one of quality and innovativeness, then the condition has a neutral influence on the complementarity related to the attractiveness of resources.
- If the partners can not benefit from the product or service in terms of quality and innovativeness, then the condition has a negative influence on the complementarity related to the attractiveness of resources.

Complementarity related to the attractiveness of technology: Based on Mockler (1997), the assessment of complementarity related to attractiveness of resources based on the complementarity related to the attractiveness of technology is presented in the following conditions:

- If the partners benefit from the technology of product or service and information technology, then the condition has a positive influence on the complementarity related to the attractiveness of resources.
- If the partners benefit from the technology of product or service and information technology, then the condition has a neutral influence on the complementarity related to the attractiveness of resources.
- If the partners can not benefit from the technology of product and service and information technology, then the condition has a negative influence on the complementarity related to the attractiveness of resources.

Conclusion of complementarity related to the attractiveness of resources: The conclusion of complementarity related to the attractiveness of resources is provided after having analyzed the

preceding complementarity related to the attractiveness of financial performance, product or service, and technology. The complementarity is presented in the following conditions:

- If the partners find complementarity related to the attractiveness of resources based on complementarity related to the attractiveness of financial performance, product or service, and technology then the condition has a positive influence on the complementarity.
- If the partners find complementarity related to the resources based on majority of complementarity related to the attractiveness of financial performance, product or service, and technology then the condition has a neutral influence on the complementarity.
- If the partners find no complementarity related to the resources based on majority of complementarity related to attractiveness of financial performance, product or service, and technology then the condition has a negative influence on the complementarity.
- If the partners find no complementarity related to the resources based on complementarity related to the attractiveness of product or service, technology, and financial performance, then the condition has a negative influence on the complementarity.

Strategic importance: It can be inferred from Douma, Bilderbeek, Idenburg, and Looise (2000: 584) that the strategic match between the partners is useless unless partners view the alliance as strategically importance to them which can be referred as ‘strategic importance’. It consists of pressure on continuity, new chances in the market, pressure of time on alliance, and alternative to cooperation. Related to new chances in the market, it has been analyzed in this research within the capacity sub-factor in the attractiveness of market. Hence, taking the finding of Douma et al. (2000) and adjusting to the developed model in the research, the relationship of the variables with the strategic importance is presented in figure 2.12.

**Figure 2.12: Relationship of strategic importance sub-factor
with the strategic match**

Pressure on continuity

It is the degree of eagerness to continue for alliance intention (Douma, 1997). The degree of pressure on continuity can be considered high when the partners commit to continue for alliance intention despite having oppositions from the stakeholders and threats in the industrial environment (Douma, 1997). Commitment to continue from the partners are presented by the top management or directors (in this dissertation government also participates) to the stakeholders that they are committed to continue the alliance in order to obtain the common objectives (Douma, 1997). Referring to Douma (1997), assessment of strategic importance based on the analysis of pressure on continuity is undertaken in the following condition:

- If both partners commit to continue for the alliance intention then the pressure on continuity has a positive influence on the strategic importance.
- If only one partner or none of the partners commit to continue for the alliance intention then the pressure on continuity has a negative influence on the strategic importance.

Pressure of time on alliance

Cooperation can generate time advantages with respect to autonomous development and/or takeover, and be important for these reasons (Douma, 1997). Referring to Douma (1997), assessment of the strategic importance based on the analysis of pressure of time on alliance is undertaken in the following condition:

- If both partners feel the pressure of time on alliance, and be important for these reasons then the pressure of time on alliance has a positive influence on the strategic importance.
- If only one partner or none of the partners feel the pressure of time on alliance, and be important for these reasons then the pressure of time on alliance has a negative influence on the strategic importance.

Alternative to cooperation

The need to cooperate is determined by the degree to which a company has alternatives for other alliances (Douma, 1997). Referring to Douma (1997), assessment of the strategic importance based on the analysis of alternative to cooperation is undertaken in the following condition:

- If both partners have no alternative for other alliance in the host country then the alternative to cooperation has a positive influence on the strategic importance.
- If both partners have alternative(s) for other alliance(s) in the host country then the alternative to cooperation has a negative influence on the strategic importance.

Overall, based on the data findings in the sub-factors, the assessment of the capacity on the IEPSA is undertaken through the following conditions.

- If there are positive influences on at least two sub-factors (among capacity, complementarity, and strategic importance) then there is a strategic match in the IEPSA.
- If there is one positive influence and two neutral influences (among capacity, complementarity, and strategic importance) then there is a strategic match in the IEPSA.
- If there are negative influences on at least two sub-factors (among capacity, complementarity, and strategic importance) then there is no strategic match in the IEPSA.
- If there is one positive influence, one negative influence, and one neutral influence on the sub-factors (among capacity, complementarity, and strategic importance) then there is a neutral strategic match in the IEPSA.
- If there are neutral influences on all sub-factors (capacity, complementarity, and strategic importance) then there is a neutral strategic match in the IEPSA.

Cultural understanding

It is not important that the cultures of the partners are similar (Faulkner, 1995). If this was a requirement then few alliances would succeed. Cultural congruence between companies is extremely infrequent, especially in international strategic alliances (Faulkner, 1995). Nevertheless, an approach of understanding of cultural differences, and willingness to compromise in the event of cultural problems, may well be critical to alliance effectiveness (Faulkner, 1995). According to Mohr and Spekman (1994), more successful partnerships exhibit higher levels of trust, a willingness to coordinate activities, and the ability to convey a sense of commitment to the relationship. The study of Mohr & Spekman (1994: 148) suggests that trust, the willingness to coordinate activities, and the ability to convey a sense of commitment to the relationship are keys. Effort must be dedicated to the formation and implementation of management strategies that promote and encourage the continued growth and maintenance of the partnership. The effort should be able to improve the trust level of the alliance. Faulkner (1995) provides contribution that partners are able to alleviate cultural incompatibility through understanding of cultural differences and willingness to compromise in the face of cultural problems. According to him mutual trust and commitment will enhance the cultural understanding between partners. Mockler (1999) states the compatibility in culture is one that should be considered besides the compatibility in strategic and operations. While Sierra (1995) states that the compatibility of partners can be discerned into tangible and intangible features. Culture is one of the tangible features that should be considered while trust and commitment are the intangible features. She points out that trust and commitment between partners

enable to deal with compatibility problems and focus to the future. According to Cullen, Johnson, and Sakano (2000) without a continuous investment in and building of commitment and trust, differences in partner companies in conjunction with cultural differences can greatly inhibit the alliance's durability and its success. Based on Mohr & Spekman (1994), Faulkner (1995), Sierra (1995), Mockler (1999), and Cullen, Johnson, & Sakano (2000), it can be concluded although there exist cultural differences between partners, as long as trust exists there will be a state of cultural compatibility between partners. The relationship between trust and commitment was researched by Cullen, Johnson, & Sakano (2000). They find that once established the trust dimensions appear to contribute significantly to the development of commitment. So that, based on Mohr & Spekman (1994), Faulkner (1995), Sierra (1995), and Cullen, Johnson, & Sakano (2000) the order of gaining cultural compatibility is; trust, commitment, and cultural understanding. Although the already mentioned authors have researched cultural compatibility, trust, commitment, and cultural understanding of strategic alliance, there is still lack of definition of cultural compatibility. The definition of cultural understanding is: the state of understanding of cultural differences by willingness to compromise in the event of cultural problems through successfully exhibiting high levels of trust in order to convey a sense of commitment to the relationship. If the alliance is intended to be long term, cultural attitudes relating to trust and commitment are likely to be vital ingredients in the alliance's success (Faulkner, 1995). It deals with a flexible attitude to cultural differences, an eagerness to learn from a partner that has different procedures, and a strong commitment and mutual trust between the partners (Faulkner 1995). From the above discussion, cultural understanding can be divided into three components, see figure 2.13.

Figure 2.13: Cultural understanding of strategic alliance

Trust

Boon and Holmes (1991: 194) defines trust as positive expectations about another's motives with respect to oneself in situations entailing risk. Trust which results from mutual awareness, equity norms, and deterrence-based trust (arising from reputational concerns) creates 'self-enforcing' safeguards in an exchange relationship and can substitute for contractual safeguards (Bradach &

Eccles, 1989; Powell, 1990). As a result, where there is trust, appropriation concerns are likely to be mitigated, and organizations may choose not to rely on detailed contracts to ensure predictability (Gulati, 1998: 303). Trust can be developed when attempting to bridge cultural boundaries and during the negotiation process (Mockler, 2001).

There is a correlation between trust and control. According to Goold and Quinn (1990: 54), trust is a prime prerequisite of effective control, because the implementation of control mechanisms requires a certain level of trust. Trust is one of the factors that lead to confidence in the alliance (Das & Teng, 1998). Another factor is control, however trust can provide control to the alliance that will induce increasing the confidence level (Beamish, 1988; Sohn, 1994). The management control system in the model can be enhanced with good conditions of trust and commitment in the alliance. The relationship of trust and control in order to develop alliance confidence level is depicted in figure 2.14.

Figure 2.14: Trust and control in strategic alliance

Adapted from Das and Teng, 1998

Bhatt (2000) states that when there is more trust in the partner's organization perceived competence (competence trust) will result in higher intent to acquire knowledge from that organization and thus will positively affect the amount of knowledge transfer.

High level of trust, according to Das and Teng (1998) will create high commitment between partners. Commitment is a similar factor to trust (Faulkner, 1995), in that it is vital to alliance effectiveness. According to Medcof (1997: 724), commitment can also stem from analysis of partner's selection criteria, namely pragmatic commitment. An alliance without commitment and trust from the board downwards may soon diminish in its performance and importance to the partner companies.

Items that should be followed to acquire trust from both partners consist of risk taking, communication, equity preservation, and inter-firm adaptation (Das & Teng, 1998) with the emphasis on the share of communication. Based on this, the relationship of share of communication, trust, with cultural understanding is presented in figure 2.15.

Figure 2.15: Relationship of share of communication, trust, with cultural understanding

Share of communication

Through IEPSA, partners have taken the risk by pledging the equity preservation. According to Segil (1996), IEPSA has the highest risk in terms of strategic alliance's classification. However, the risk can be managed by inter-firm adaptation enhanced with intensive share of communication to the entire organization (Das & Teng, 1998). Thus, trust in the IEPSA can be assessed in accordance with the following condition.

- If the alliance intensively shares communication to the entire organization then the share of communication has a positive influence on the trust.
- If the alliance does not intensively share communication to the entire organization then the share of communication has a negative influence on the trust.

Commitment

There are two forms of commitment which are attitudinal and calculative commitments (Cullen et al., 2000). In the attitudinal commitment (Cullen et al., 2000: 226), the alliance assumes a position of status and importance; the partners are willing to nurture the alliance. For a relationship to continue there must be a positive benefit/cost analysis for the partners. Managers must see a potential for returns and/or a need to avoid switching costs. This is the rational and economic side of commitment. It is called calculative commitment (Cullen et al., 2000: 225-226). In the planning phase since the benefits or returns are unknown, then the calculative commitment is not considered. Based on this, the relationship of nurture the alliance, commitment, with cultural understanding is presented in figure 2.16.

Figure 2.16: Relationship of nurture the alliance, commitment, with cultural understanding

Nurture the alliance

Nurture the alliance relates to the passion of both partners to achieve the objectives (Henry, 2011). As discussed earlier, it enhances the commitment of the partners. The condition will support the bases of the alliance implementation. Therefore, assessment of the commitment is provided in accordance with the following condition.

- If partners are willing to nurture the alliance then it has a positive influence on the commitment.
- In the cases when one or both partners are not willing to nurture the alliance then it has a negative influence on the commitment.

The following figure depicts the planning phase of an international equity placement strategic alliance.

Figure 2.17: Planning phase of international equity placement strategic alliance

2.1.2 Alliance formation phase

This phase follows the ‘go’ decision of the previous planning phase. In this phase, the political perspective relates to internal support (Lorange & Roos, 1992) while the analytical perspective is on the strategic planning (Lorange & Roos, 1992; Segil, 1996). The partners spend considerable time and

effort in building communication and disseminating the strategic planning to the organization (Sierra, 1995; Segil, 1996).

Internal organization support

In this stage, it is required to consider political aspects as well for the development of the strategic planning, i.e. ensuring that the organization becomes committed to and enthusiastic about the alliance (Lorange & Roos, 1992; Sierra, 1995; Segil, 1996). Lorange and Roos (1992: 41) consider that at this stage there are key questions raised: has the intended alliance been sufficiently explained and clearly motivated throughout the organization? Has it been presented with sufficient detail to ensure that everyone sees the tasks ahead and can focus on them as an opportunity? Has it been plausibly documented how combinations of activities are to be executed so that job security issues are addressed, and so that the strategic will not be seen as a threat?

This research did not include all the key questions from Lorange & Roos (1992), such as: Are relevant specialists motivated to carry out their specific tasks in a cooperative mode? Do the operational staffs have sufficient complementary styles to simplify their working contacts between the partner organizations? The reasons are that these questions have been embedded in the first two key questions. The question about relevant specialist has been accommodated in the question of explaining and motivating the organization. The second question about operational staffs' complementarity has been embedded in the question of presenting sufficient details that everyone sees the tasks ahead.

Segil (1996) states that the alliances are doomed to failure without having active participation of the managers in the implementation plan. She mentions that the company should obtain internal approval particularly in the cases where the life cycle of parent partner's company before forming the alliance is either in mature or consolidating stage. This confirms with the object of investigation in the research (SOEs and BTOs) which are in the stage of consolidation after being suffered from the economic downturn and restructured by the government. According to Segil (1996), the company should check with lots of people before feeling comfortable in going forward. According to Lorange & Roos (1992), in order for the entire organization to be prepared for during the alliance's implementation, everyone must be sold on the concept relatively early on. The internal support issue concerns, above all, managers in various operational functions, who might be particularly actively involved in participating in the strategic alliance (Lorange & Roos, 1992: 41). Segil (1996) and Lorange & Roos (1992) concur that in the implementation plan of strategic planning everyone must be involved and contribute to the successfulness of strategic alliance implementation. They consist of employee and managers of the alliance.

In other words, internal organization support can be enhanced by providing certainty to the internal organization that they participate in the implementation of the strategic planning (Lorange & Roos, 1992). Based on this, the relationship of participation in the implementation of strategic planning with internal organization support is presented in figure 2.18.

Figure 2.18: Relationship of participation in the implementation of strategic planning with internal organization support

Participation in the implementation of strategic planning

In the phase, the directors and top management should ensure that the strategic planning is supported by internal organization and they become aware, committed to, enthusiastic, and implement the strategic planning (Lorange & Roos, 1992). Therefore, assessment of the internal organization support is undertaken based on the following condition.

- If the new owners involve all internal organization to participate in the implementation of strategic planning then the condition has a positive influence on the internal organization support.
- If the new owners do not involve all internal organization to participate in the implementation of strategic planning then the condition has a negative influence on the internal organization support.

Strategic plan

Strategic plan is the process of deciding on the programs that the organization will undertake and on the approximate amount of resources that will be allocated to each program over the next several years (Anthony & Govindarajan, 2006). The strategy that is developed should contain corporate, business, and functional strategy (Wheelen & Hunger, 2010). The strategic plan should be agreed upon by both partners and supported by internal stakeholders (Lorange & Roos, 1992). One of the core goals when drafting a strategic plan is to develop it in a way easily translatable into action plans (Anthony & Govindarajan, 2006). To make it translatable, it should consist of commitment, employment, and socialization (Kikeri & Nellis, 2004; Lorange & Roos, 1992). Commitment relates with the alliance's contribution while employment and socialization are the variables which

support the implementation of strategic alliance (Kikeri & Nellis, 2004; Lorange & Roos, 1992). Those variables are related each other where commitment is the variable for strategic planning in order to trigger the internal organizational support (as have been discussed in the preceding section) is presented in figure 2.19.

Figure 2.19: Relationship of commitment with internal organization support

Commitment

According to Kikeri and Nellis (2004), the strategic alliance should consist of commitment to the alliance and the industry. Based on this, assessment of strategic planning is presented in the following condition.

- If the content of strategic alliance SPA consists of commitment to the alliance and industry then it has a positive influence on the strategic planning.
- If the content of strategic alliance SPA consists only one of the commitments to the alliance and industry then it has a neutral influence on the strategic planning.
- If the content of strategic alliance SPA consists none of commitment to the alliance and industry then it has a negative influence on the strategic planning.

Figure 2.20 depicts the formation phase of international equity placement strategic alliance, which also includes the cultural understanding already discussed above.

Figure 2.20: Formation phase of international equity placement strategic alliance

2.1.3 Alliance operation phase

After both parties have reached agreement to sign the contract, the next phase is the operation phase which deals with operating the international strategic alliances so that the stated objectives will be achieved. Significant characteristics during this phase are Human Resource Management, Organizational Arrangements, and Management Control Systems (Foster, 1996; Tipuric, 1996, Hellriegel, Slocum, & Woodman, 2001; Mulyowahyudi, 2001). In the operation phase there are mixed of considerations between analytical and political in terms of factors that should be undertaken (Lorange & Roos, 1992); human resource management, organization arrangement, management control system, and cultural understanding. In this phase, the activities are filled with interaction between partners, socialization, and implementation of the program to alliance's organization. The analytical consideration is related with analyzing and determining the optimal factors within the phase while political consideration is related with interaction, persuasion, and socialization between the partners and the entire organization so that all the elements implement the programs.

Human resource management

Human resource management is one of the factors in the operation phase that should be considered by the management of international strategic alliance (Lorange & Roos, 1992). Human resource management considerations play a pivotal role in the development of strategic alliances. "Without the development of human resources and core competencies as a strategic resource within a strategic alliance, it will be difficult to secure the long-term strategic future of the cooperative effort, even though financial resources and returns might be adequate for now" (Lorange & Roos, 1992: 150). The success of a strategic alliance is determined by individuals, and choosing people for key positions (Lorange & Roos, 1992). Since an IEPsA is a form of alliance this must apply to IEPsA as well.

The kinds of people who can successfully support the strategic alliance are people who can collaborate (Hamel & Heene, 1994; Littler & Leverick, 1995; Medcof, 1997). Collaborative people show strong cooperative and assertive behaviors (Hellriegel et al., 2001). It is the win-win approach to interpersonal conflict handling, which can be illustrated as in figure 2.21.

Figure 2.21: Interpersonal conflict handling style (adapted from Hellriegel et al., 2001)

Assertive	Forcing		COLLABORATING
<i>Concern for Self</i>		Compromising	
	Avoiding		Accommodating
Unassertive	Uncooperative	<i>Concern for Others</i>	Cooperative

A person who uses a collaborative approach desires to maximize joint results (Hellriegel et al., 2001). He or she tends to:

- ❑ Extend the capability of learning (Doz, 1996)
- ❑ Be cooperative and see conflict as natural (Mohr & Spekman, 1994)
- ❑ Exhibit trust, candor, and communication with others (Mohr & Spekman, 1994)
- ❑ Commit to the objective setting (Das & Teng, 1998)

The persons associated with collaborative people are those that should be invented in the implementation of strategic alliance through its human resource management. Therefore, the relationship of collaborative people and human resource management is presented in figure 2.22.

Figure 2.22: Relationship of collaborative people and human resource management

Collaborative people

According to Hellriegel et al. (2001), collaborative people who possess high degree of both concern for others and concern for self have the characteristics of learning capability, cooperation and conflict resolution, trust, candor, communication, and commitment to the objective setting. Based on this, assessment of the human resource management is undertaken based on the following condition.

- If the alliance creates people with high degree of both concern for others and concern for self then the condition has a positive influence on the human resource management
- If the alliance does not create people with high degree of both concern for others and concern for self then the condition has a negative influence on the human resource management

Organizational arrangement

Organizational arrangement is one of the factors that should be regarded (Foster, 1996). In the organizational arrangement factor, the alliance should set up flattened organization, decentralization of decision making, and have improvement orientation (Bleeke & Ernst, 1991; Callahan & Mac Kenzie, 1999; Cohen & Levinthal, 1990; Inkpen, 1996; Lei & Slocum, 1992; Senge, 1992; Nti & Kumar, 2000). By having set up the variables together with the existence of collaborative people, responsiveness and flexibility of the organization can be achieved (Hellriegel et al., 2001) as well as improvement orientation how the alliance commits to improving its skills and capabilities (Senge, 1992; Cohen & Levinthal, 1990; Inkpen, 1996; Nti & Kumar, 2000). It relates with the alliance's adjustment to the changes in environment. It is the ability of an organization to respond quickly in appropriate manner to mitigate negative threats or capitalize on positive opportunities (Konsynski, Bray, & Thomas, 2007). Therefore, the relationship of flattened organization, and decentralization of decision making with organizational arrangement is presented in figure 2.23.

Figure 2.23: Relationship of flattened organization, and decentralization of decision making with organizational arrangement

Flattened organization

By definition, it is an organizational structure in which most middle-management levels and their functions have been reduced, thus bringing the top management in direct contact with the employees (Foster, 1996; Tipuric, 1996). According to the definition, it can be inferred that the more direct contact of employees with the top management, the more flattened is the organization and vice versa. Thus, assessment of the organizational arrangement based on the analysis of flattened organization is presented in the following condition.

- If top management is considered frequently having direct contact with the employees then flattened organization has a positive influence on the organizational arrangement.
- If top management is considered rarely having direct contact with the employees then flattened organization has a neutral influence on the organizational arrangement.

- If top management is considered never having direct contact with the employees then flattened organization has a negative influence on the organizational arrangement.

Decentralization of decision making

It relates with how the decision making is made in the alliance, whether the alliance can make its own decision or whether it is born by headquarters (Daniels & Radebaugh, 2001). Therefore, assessment of the organizational arrangement based on the analysis of decentralization of decision making is presented in the following condition.

- If the alliance makes its own decision making out of the headquarter then the decentralization of decision making has a positive influence on the organizational arrangement.
- If the alliance makes its own decision making in the headquarter out of the strategic alliance then the decentralization of decision making has a negative influence on the organizational arrangement.

Management control system

Another factor of international strategic alliance in the operation phase is the optimal use of Management Control System to ensure that the strategic alliance achieves its objectives. Management control is defined as the process by which managers influence other members of the organization to implement the organization's strategies (Anthony & Govindarajan, 2006). Management control systems are tools to aid management for steering an organization toward its strategic objectives and competitive advantage (Anthony & Govindarajan, 2006). In the management control system factor, the alliance should set up and improve its planning, control structure, and control process (Anthony & Govindarajan, 2006; Bradach & Eccles, 1989; Das, 1989, 1993; Flamholtz, Das, & Tsui, 1985; Geringer & Hebert, 1989; Goold & Quinn, 1990; Simons, 1991).

Figure 2.24: Management control system (adapted from Anthony and Govindarajan, 2006)

In accordance with Anthony & Govindarajan (2006), the ingredients of a management control system consist of planning (vision, goals and objectives, strategies and policies), control structure (responsibility centers, organizational set-up, performance measures, reward and punishment system, information system) and control process (programming, budgeting, evaluation, feedback, reporting, and compensation).

Based on this, the relationship of planning, control structure, control process, with management control system is presented in figure 2.25.

Figure 2.25: Relationship of planning, control structure, control process, with management control system

Planning

In the formation phase the alliance has already set up the strategic planning, thus, the variable in this phase relates with how regular the alliance conduct its planning based on the strategic planning (Anthony & Govindarajan, 2006). Based on this, assessment of the management control system based on the analysis of planning is presented in the following condition.

- If the alliance commits to conduct its planning regularly then the planning has a positive influence on the management control system.
- If the alliance does not commit to conduct its planning regularly then the planning has a negative influence on the management control system.

Control structure

The variable relates with whether the alliance has set up the structure of control system (Anthony & Govindarajan, 2006). Therefore, assessment of the management control system based on the analysis of control structure is presented in the following condition.

- If the alliance has set up structure of control system then the control structure has a positive influence on the management control system.

- If the alliance has not set up structure of control system then the control structure has a negative influence on the management control system.

Control process

It relates with the process feedback on performances in the aim to achieve strategic objectives and competitive advantage of a corporation (Anthony & Govindarajan, 2006). Therefore, assessment of the management control system based on the analysis of control process is presented in the following condition.

- If the alliance has conducted process feedback on performances then the control process has a positive influence on the management control system.
- If the alliance has not conducted process feedback on performances then the control process has a negative influence on the management control system.

Overall, Figure 2.26 depicts the operational phase model in the international equity placement strategic alliance.

Figure 2.26: Operational phase of strategic alliance

Evolved cultural understanding

The cultural understanding between or among partners can evolve in the operation phase from the results in the planning and formation phase.

The trust level between the partners can evolve over time (Arino, de la Torre, & Ring, 2001). This evolution of trust between partners can occur not only because of initial conditions but also because of the subsequent experiences that exist within the life cycle of the alliance. Resilient trust is associated with high levels of relational quality. There are four elements of relational quality, which are the initial conditions, after the negotiation process, the experiences of each other after the

alliance operates, and each partner's behaviors outside the alliance. They can be summarized in table 2.6.

In the operation phase the components and variables are almost similar with the cultural understanding in the preceding phases. Only in the commitment component has its additional variable (besides attitudinal commitment) which is calculative commitment (Cullen et al., 2000). According to Cullen et al. (2000), calculative commitment is the commitment which is rooted from the performance of the alliance. Therefore, the relationship of performance of the alliance, commitment, with cultural understanding is presented in figure 2.27.

Figure 2.27: Relationship of performance of the alliance, trust, commitment, with cultural understanding

Table 2.6: The evolutionary of trust in alliance phases life cycle

Planning Phase	Formation Phase	Management Phase
<ul style="list-style-type: none"> • The trust derived from the partner's inherent characteristics • It may derive from institutional context within which the alliance exists • It may also derive from any prior experiences that may have had with each other • The initial reservoir of comfort and confidence may be enhanced or diminished through the negotiation process 	<ul style="list-style-type: none"> • Collectively, the elements of trust that derived in the planning phase can build up or tap as they adapt to future challenges • A critical determinant of future levels of relational quality between the partner is their experience with each other's behavior as the alliance develops 	<ul style="list-style-type: none"> • The interpretation of these experiences is a complex, multi-dimensional problem that is a function of the number, frequency, and gravity of their interactions, the difference between actual and expected outcomes, the nature of any transgressions, the intentions or motivations attributed to a partner's behavior, and any advance warning and/or post facto explanation of its actions by the partner • As the quality of the relational improves, the potential for positive conflict resolution increases, which in turn enhances the partners' views of each other's trustworthiness • The reverse, possible condemning the venture to failure unless remedies are undertaken

Adapted from Arino, de la Torre, and Ring, 2001

Performance of the alliance

The performance which supports the commitment in the operation phase relates with the financial performance of the alliance (Cullen et al., 2000). In measuring the performance, it should relate with how the operation of the alliance can add value to the entity (Damodaran, 2003). The alliance can be regarded as adding the value when the ROA is more than WACC (Damodaran, 2003). Based on this, assessment of the commitment based on the analysis of performance of the alliance is undertaken in accordance with the following condition.

- If the company's ROA is more than or equal with the WACC then it has a positive influence on the commitment.
- If the company's ROA is less than the WACC then it has a negative influence on the commitment.

2.1.4 Alliance termination phase

One critic of strategic alliances is Michael Porter. Porter (1998) shows both positive and negative views to the termination of strategic alliances. His message is about being cautious that alliances should be well-prepared otherwise it will destine to terminate. He viewed that broad alliances, covering many activities and markets, tend to stunt a company's own development. According to Porter (1998: 339), they inhibit or relieve the sense of urgency about building the brand or developing the firm's own products. The best alliances are often transitional devices, assisting a firm to build on its strengths and to learn. In the long run, the partners may go their separate ways or upgrade the alliance to a full merger. A firm cannot rely on a partner for assets crucial to its competitive advantage. Mockler (1999) agrees with Porter's statement, however, he believes that the alliance should not underscore the termination otherwise it will indeed terminate.

The probability of termination should be planned for when formulating an alliance (Mockler, 1999). However, he does not want the partners underscore and overstate it in the initiation phase. It can be unwise to overemphasize termination conditions, however, the alliance agreement should, at a minimum, outline the principles and general terms guiding any termination (Mockler, 1999). "The termination may be specified as part of the original strategy or it may be caused by outside political circumstances (such as wars), changing partner needs (as when mergers or acquisitions occur), inefficient management, changing economic conditions, or by ill-conceived initial planning" (Mockler, 1999: 190).

Companies must face the challenge of terminating an alliance. According to Kanter (1994), there are a number of reasons of ending the strategic alliance. First, a partner may be suitable for one purpose and not another. Managers or other venture participants may be needed for more urgent

tasks. Second, shifts in business conditions or strategy can mean that a particular relationship no longer fits as well as it once did. However, whatever the reasons, ending a strategic alliance properly is difficult to do and requires much skill and diplomacy where partners should be fully informed and treated with integrity. If they are not, future relationships will be jeopardized, especially in Asian countries, where business and government leaders have long memories (Kanter, 1994).

Based on the above literatures (Kanter, 1994; Sierra, 1995; Porter, 1998; Mockler, 1999), it can be identified that there are internal and external drivers that can lead the strategic alliance into the termination phase as presented in the following figure 2.28. Internal driver is the forces from the internal organization that lead alliance into termination. External driver is the forces from outside organization that lead alliance into termination.

Figure 2.28: Termination phase of strategic alliance

Strategic objectives

The alliance will be terminated after firms acquire the kind of resources they need from their partners (Das & Teng, 2000). Alliance termination can also reflect satisfaction of a partner's strategic objectives (Reuer & Zollo, 2005). Several authors (Gomes-Casseres, 1987; Gulati, 1998; Saxton, 1997) warn not to equal alliance termination with failure. Alliances that have reached their strategic objective might be terminated and still be considered a success.

Expectancy

The alliance will also be terminated once partners realize that counterpart does not have market they required, and has lack of synergy they seek in the initiation of the alliance (Kanter, 1994; Mockler, 1999). The expected synergy can be in the form of product or service, technology, and financial performance.

Corporate leadership

Change in corporate leadership can lead the alliances into termination (Das & Teng, 2010). It can lead to diverse management styles and may run the alliance into trouble if there is a lack of interfirm trust (Das & Teng, 2000).

External environment

The external environment that can lead the alliance into termination can be in the form of political circumstances, shift in business conditions, and changing in economic conditions (Kanter, 1989; Das & Teng, 2000).

Table 2.7: Variables in termination phase and the driving forces

No.	Variable	Driving Force
1.	Strategic objectives	Change in strategic objectives
2.	Expectancy	False expectations
3.	Corporate leadership	Change in corporate leadership
4.	External environment	Political circumstances, shift in business conditions, and changing in economic conditions

2.2 Common and specific characteristics

Due to the sharing of equity in the alliance, participation of stakeholders over the intention of alliance is important. This is so because changes in the equity's portion will affect the stakeholders' reaction to the alliance. In this research, where the focus is on SOEs, the influence of stakeholders is even more imminent.

As mentioned earlier, IEPSA is one of the forms of privatization. The definition of privatization in broad terms is the transfer of ownership and/or control of state-owned organizations to private investor (Heracleous, 1999). The process structure of privatization is similar with that of IEPSA particularly SOE as the subject of investigation. It is the selling some parts of government's shares to the foreign company. Hence, the foreign company takes ownership in the SOE and together with the government become the new owner of the company. The process of selling the government's shares in the SOEs should take into consideration the stakeholder (Freeman, 1984).

The stakeholder of SOE consists of government (Moore, 1992; Ramamurti, 2000; Megginson, 2000), house of representative (Moore, 1992), politician (Moore, 1992; Boycko, Shleifer, & Vishny, 1996), top management (Moore, 1992), labor union (Moore, 1992; Boycko et al., 1996; Ramamurti, 2000), and ambient society (Moore, 1992; Ramamurti, 2000).

Donor organization such as World Bank played an important role in the SOEs such as the case of Sub Saharan Africa (SSA) privatization (Bennell, 1997) which can be named with the term 'Donor Pressure'. During the 1980s most governments in SSA openly opposed the sale of SOEs which

clearly prevented the widespread adoption of viable privatization programs. Only a handful of governments in SSA committed to the privatization and the rests tended to play lip service to the World Bank. During the 1990s however, political constraints have become less critical in many, and instead the sale ability of SOEs and the mode of privatization are increasingly the major concerns. The reasons are that, as more governments were more dependent on the donor funding so that the term privatization became common. Second, significant political liberalization has created additional political space in order to begin or revamp privatization programs. Third, the financial state of SOEs has continued to deteriorate the budget deficit besides attempts to restructure SOEs using performance and management contracts with existing managements have not been successful. Finally, with the key macroeconomic reforms implemented in most countries in SSA under the supervision of World Bank which in 1996 alone, lending for public sector reform projects in SSA countries increased over five times, from US\$ 117 million in 1995 to US\$ 654 million. In the economic and political reforms, World Bank focuses on private sector development. It has become increasingly aware of the critical need to develop the private sector in order to ensure high and sustainable economic growth in the future, given the general failure of these macroeconomic reforms to resolve the economic crisis in SSA. Consequently, much greater pressure is now being applied on governments to privatize rapidly all types of SOEs, both large and small, with the World Bank now actively encouraging governments to sell SOEs rather than opt for non-asset types of privatization.

International Monetary Fund (IMF) entered the scene as the central player during the midst of Asian economic crisis, as countries in the region struggled to deal with the effects of stalled currency. Particularly in the growing inability of private sector to service its short-term, unhedged dollar denominated debt (Robison & Rosser, 1998). At the time, Indonesia lacked the reserves to meet its short-term obligations and called in the IMF. Malaysia did not seek for help, while the Philippines was already in an IMF program when the crisis began (Feldstein, 1998). During the crisis, IMF provided rescue packages of US\$ 17.2 billion to Thailand, US\$ 43 billion to Indonesia and US\$ 57 billion to Korea made the program the largest bail-out in history, surpassing the US\$ 48 billion package offered to Mexico in 1995 (Robison & Rosser, 1998). All of these countries clearly needed to shrink their current account deficits by increasing exports and reducing imports (Feldstein, 1998: 2). These countries required reductions in public and private consumption and investment where. IMF provided its remedy consisting of a variant of the traditional IMF medicine tailored specifically to each country some combination of reduced government spending, higher taxes, and tighter credit (Feldstein, 1998).

The IMF's role in Thailand and Indonesia went far beyond the role that it played in Latin America, where instead of relying on private banks and serving primarily as a monitor of performance, the IMF took the lead in providing credit (Feldstein, 1998). In exchange, it had imposed programs requiring governments to reform their financial institutions and to make substantial changes in their economic structures and political behavior (Feldstein, 1998). The conditions imposed on Thailand and Indonesia were more like the comprehensive reforms imposed on Russia, including the recent emphasis on reducing Russian corruption, than like the macroeconomic changes that were required in Latin America. In Indonesia, in exchange for a US\$ 40 billion package (more than 25 percent of Indonesia's GDP), the IMF insisted on a Letter of Intent (LOI) which consisted of long list of reforms, specifying in minute detail such things as the price of gasoline and the manner of selling plywood. The government has also been told to end the country's widespread corruption and curtail the special business privileges used to enrich President Soeharto's family and the political allies that maintain his regime (Feldstein, 1998).

In the privatization, the economic distance between the country of foreign investor and the host country matters (Tsang & Yip, 2007; Ghemawat, 2001). The higher the economic distance would lead to the more hazard rates (Tsang & Yip, 2007). Consequently, the host country's economic condition should be in a good condition to avoid high economic distance between the partner's countries of origin and it is part of the important subject to analyze. The government as the owner of the SOEs should take into consideration to the economic condition. However, the privatization usually takes place when the economic condition is getting worse (Ramamurti, 2000), and when the government needs privatization to restructure the industry and economic and yet donor pressure seems imminent to urge government to privatize the industries (Ramamurti, 2000). Since privatization occurs in many countries at a time of macroeconomic crisis, governments want to privatize quickly to turn around their economies, but breaking up SOEs vertically or horizontally and redefining regulations take time (Ramamurti, 2000). Especially during economic crises, governments are strapped for funds and want to get the highest possible price for their SOEs when they sell SOEs directly to a private company or to a consortium of investors (Ramamurti, 2000; Megginson, 2000). Furthermore, the economic condition will influence the valuation of the selling price to the foreign company. So that when the economic conditions is bad the government will suffer an opportunity revenue lose from the low selling price of the SOE being privatized when the valuation does not take into account future cash flow (Damodaran, 2008). The selling price of the company is related to the share price. In terms of share price, the greater the number of bidders, the more competitive the offering prices from the bidders that lead to the higher the price paid to the owner (government) (Kikeri & Nellis, 2004). This situation brings about the higher the level of

public acceptance and satisfaction (Kikeri & Nellis, 2004). In addition, many are concerned that the often perceived corruption and lack of transparency in privatization transactions have minimized gains (of share price) and increased broader problems of governance (Kikeri & Nellis, 2004). In terms of macro consideration, it has been applied without proper regard to a country's economic and social conditions, often at the behest of external actors (donor pressure) (Kikeri & Nellis, 2004). Another consideration is about the existence of regulatory framework (Kikeri & Nellis, 2004) when competitive markets and regulatory frameworks are not sufficiently developed to support privatization, it is not surprising that privatization is blamed when general economic conditions fail to improve.

The government should consult with the house of representative for gaining agreement to privatize the SOE (Moore, 1992). Otherwise, it can be considered as not transparent (Basu, 1994). On the other hand, the house of representative demanded the government to conduct transparent process of privatization by socializing the privatization to the stakeholder. In addition, by selling the government's shares in the SOEs, politician will have opportunity to blow the probable of not transparent conducts as a motivation to increase reputation (Moore, 1992; Kaufmann & Siegelbaum, 1997), management might feel threatened of losing power (Moore, 1992; Kikeri & Nellis, 2002), labor union might confused of losing the job (Moore, 1992; Kikeri & Nellis, 2002), and ambient society might have the hegemony of nationality and oppose the un-nationalized conduct especially when conducted un-transparently (Moore, 1992; Kaufmann & Siegelbaum, 1997; Kikeri & Nellis, 2002).

The translation of control rights into corrupt side payments is facilitated by secrecy and a lack of transparency (Kaufmann & Siegelbaum, 1997: 9). It provides ammunition to political and other opponents, creates backlash from investors and the public at large, and threatens to halt privatization and liberalizing reform in general (Kikeri & Nellis, 2002: 25). As a result, the public came to oppose privatization, associating it with corruption and wealth for a chose few (Kikeri & Nellis, 2002: 26).

In the transparency issues, three types of information are potentially important (Kaufmann & Siegelbaum, 1997). Firstly, process of information which provides the "rules of the game" to public. It has made so dramatically reduced the ability of corrupt officials to collect rents through permitting exceptions and violations of legal standards (Kaufmann & Siegelbaum, 1997: 9). The second important type of information pertains to the valuation (share price) of enterprises being privatized (Kaufmann & Siegelbaum, 1997: 9). The third type is the availability of information on the results of privatization transaction (Kaufmann & Siegelbaum, 1997: 9)

Putting transparency into place requires a host of measures. Speed and full transfer of assets, without special privileges and concessions for insiders, is crucial, particularly in the case of competitive enterprises (Kikeri & Nellis, 2002: 26). Evidence from Mexico, Bulgaria, South Africa and elsewhere indicates that, once a firm is slated for privatization, delays in completing the transaction lead to a decline in operations, asset stripping, and a lower sales price (La Porta & Lopez-de-Silanes, 1997). Ultimately, few buyers may participate and, rather than liquidating such firms which is the right technical approach but politically unpalatable, special clandestine deals might need to be negotiated, increasing the chances for intransparencies (Kikeri & Nellis, 2002). On the other hand, selling firms with the lack of efforts to enhance competition and regulation and transparency as well as protection of consumers against the threat of remaining monopoly power, can be extremely expensive (Kikeri & Nellis, 2002). The general rule should be to move swiftly on the privatization of firms operating in competitive or potentially competitive markets, but get the market structure right in privatizing infrastructure firms (Kikeri & Nellis, 2002: 26).

An effective institutional framework is needed, however planning for it has been considered easier than implementing it (Guislain, 1997). It needs a minimal bureaucracy, direct access to and support of the highest political authorities, and adequate resources and flexibility to hire the many and expensive private resources needed to prepare and complete the sale (Guislain, 1997). In undertaking independent, market-based asset valuations, independent financial advisors and qualified experts are required to ensure that prices are realistic, fair and politically defensible (Kikeri & Nellis, 2002).

In order to obtain transparency, one of the most effective ways is through promoting competition in the transaction process, in the objective to yield the maximum economic and financial benefits. Clearly defined competitive bidding procedures for calling, evaluating, and awarding offers are important, including the public opening of bids (in Bolivia, this was done on national television) (Kikeri & Nellis, 2002: 26). In general, the greater the openness and competition in the selection process the greater the likelihood that transparency will be achieved and the higher the price paid (Kikeri & Nellis, 2002: 27).

Kaufmann and Siegelbaum (1996), in their work on transition economies, argue that although there have been an increasing number of corruptions in the privatization program, the privatization itself is not the cause of corruption. Different privatization approaches have affected the incidence of corruption, depending on the scope of control rights over economic activity retained by politicians and bureaucrats. Privatization itself is a way to address corruption, the development of a legal and institutional framework is needed to limit the ability of insiders to self-deal (Kikeri & Nellis, 2002).

All in all, from the above sections, it can be concluded that when compared with other types of strategic alliance with its common characteristics (defined as the characteristics that possessed by any other types of strategic alliance), IEPSA has its specific characteristics. The specific characteristics are those that should be more emphasized than other types of strategic alliance or are non-existence. It composes of share price, donor pressure, transparency, and stakeholder support (internal and external).

2.3 Conceptual framework

Based on the information and discussion presented above, it can be concluded that the IEPSA contains four phases: planning, formation, operation, and termination. Each of these phases contains important activities which can be separated into a main emphasis based on analytical considerations versus political considerations. Several factors and variables influence the outcomes of each phase. These variables can be separated into common characteristics that play a role in alliances and specific characteristics that play a role in IEPSAs. This leads to the overall conceptual model as presented in figure 2.29 and table 2.8.

Figure 2.29: Conceptual framework for International Equity Placement

Table 2.8: Factors for International Equity Placement Strategic Alliance

Phase	Factor/Variable	Characteristics
Planning	<ul style="list-style-type: none"> - Stakeholder support - Strategic match Capacity <ul style="list-style-type: none"> • Macro Consideration <ul style="list-style-type: none"> ○ GDP growth and Inflation rate ○ Currency rate • Micro Consideration <ul style="list-style-type: none"> ○ Market ○ Alliance track record ○ Product or service ○ Technology ○ Financial performance Complementarity <ul style="list-style-type: none"> • Complementarity of strategy • Complementarity of product or service • Complementarity of technology • Complementarity of financial performance - Strategic importance <ul style="list-style-type: none"> • Pressures on continuity • Pressures of time on alliance • Alternative to cooperation 	<p>Common characteristics:</p> <ul style="list-style-type: none"> -The characteristics of IEPsA are the main considerations of forming the alliances consisting of political and analytical considerations that both (all of) partners should mind of -The planning phase consists of strategic match and stakeholder support including cultural understanding. The variables of strategic match are capacity, complementarity, and strategic importance, while those of stakeholder supports consists of internal organization, society, and house of representative <p>Specific characteristics:</p> <ul style="list-style-type: none"> -Share price, transparency, donor pressure, and stakeholder support
Formation	<ul style="list-style-type: none"> - Internal support - Strategic Plan 	<p>Common characteristics:</p> <ul style="list-style-type: none"> -The characteristics of IEPsA in the formation phase consist of setting up strategic plan and finding internal organization support which are the managers and employees as well as dealing with cultural understanding <p>Specific characteristics:</p> <ul style="list-style-type: none"> - Stakeholder in terms of internal organization support
Operation	<ul style="list-style-type: none"> - Human Resource Management - Organizational Arrangement 	<p>Common characteristics</p> <ul style="list-style-type: none"> -For operation phase, the characteristics of IEPsA are the implementation and operation of human

Phase	Factor/Variable		Characteristics
	- Management Control System		<p>resource management, organizational arrangement, and management control system and evolved cultural understanding.</p> <p>Specific characteristics:</p> <ul style="list-style-type: none"> - Stakeholder support
Termination	<ul style="list-style-type: none"> - Internal driver - External driver 		<p>Common characteristics</p> <ul style="list-style-type: none"> - The characteristics of IEPSA in the internal driver of termination phase consists of changes in strategic objectives and focus, changes in corporate leadership, false expectations about partner's capabilities, lack of synergy, Inability to cope with diverse management styles and cultures, and unrealized market expectations - The characteristics of IEPSA in the external driver of termination phase consists of shift in business conditions, political circumstances, and changing economic conditions <p>Specific characteristics</p> <ul style="list-style-type: none"> - Share Price

CHAPTER 3: METHODOLOGY

In this chapter the methodology is discussed. The selected methodology was the case study methodology. The reasons for selecting this methodology are explained in section 3.1. Section 3.2 deals with a main criticism of case studies, i.e. limited external validity, and the tactics used in the research to counter this criticism. Section 3.3 focuses on construct validity and reliability. Both are dealt with during the data collection phase. Section 3.4 explains tactics for dealing with internal validity. In section 3.5, the operationalization of the concepts from the conceptual model in chapter 2 is discussed. In section 3.6, the assessment of the factors, sub-factors, and components is presented.

3.1 Case study research

The development over time of international equity placement strategic alliances is complex. Studying this type of complex situation with a quantitative approach could be inferior to a qualitative approach because a quantitative research approach is more fixed whereas a qualitative approach allows flexibility and is therefore more useful for dealing with complex situations (Gummesson, 1991; Silverman, 2000: 1; Yin, 2003). Qualitative research approaches are often associated with a case study approach. A case study can be defined as an empirical inquiry that (i) investigates a contemporary phenomenon within its real-life content, especially when (ii) the boundaries between phenomenon and context are not clearly defined (Yin, 2003: 13).

The appropriateness of applying a case study approach versus other research approaches relates to the type of research question (Yin, 2003: 5). In general, “what” questions may either be exploratory (in which case of any strategy can be used) or about prevalence (in which surveys or the analysis of archival records would be favored). “How” and “why” questions are likely to favor the use of case studies, experiments, or histories. In terms of the form of the research question, as explained in the first chapter, the central research question is: How did the privatization process through IEPSAs take place in Indonesia? This type of “how” question makes the case study approach a suitable research method. There are four scientific criteria for case studies: external validity, construct validity, internal validity and reliability. Tactics for each will be discussed in sections 3.2, 3.3, and 3.4.

3.2 External validity

One of the disadvantages of a case study approach is the limited external validity of the results (Yin, 2003). Case studies have been criticized for being too situation specific, and therefore not

appropriate for generalization (Dubois & Gadde, 2002). Although Yin (2003) provides some reasons for conducting single-case studies, the preference is for a study to contain multiple cases which helps with external validity. This leads to two types of decisions: the number of cases to include in the study, and the criteria for selecting cases.

3.2.1 Number of cases

Eisenhardt (1989) and Perry (1998) discuss the number of cases that should be included in a research project. The key question is how many cases should be undertaken in a study in order to develop a generalizable theory? According to Malhotra (2006), a minimum of 30 cases is considered enough to find the normal distribution of the generalizable findings. However, this number of cases would probably lead to a lot of repetitive findings (Yin, 2003). Also, one of advantages of a case study approach is the potential for collecting in-depth data (Voss et al., 2002; Yin, 2003). The right balance should therefore be obtained between having fewer cases with more in-depth information versus adding more cases for generalization purposes. Generally, this balance occurs when learning new things in additional cases diminishes, i.e. saturation takes place. Perry (1998: 793) states that four to six cases form a reasonable minimum and that ten to fifteen cases are the absolute maximum number of cases. Eisenhardt (1989: 545) states that while there is no ideal number of cases, a number between 4 to 10 cases usually works well. In this research, six cases were selected. This number conforms to both Perry's (1998) and Eisenhardt's (1989) view on the number of cases that is acceptable.

3.2.2 Case selection criteria

According to Voss et al. (2002: 203) and Yin (2003: 47) cases in a multiple case study must be selected so that they either a) predict similar results for all cases ("literal replication") or b) produce contrary results but for predictable reasons ("theoretical replication"). The replication logic is considered a tactic to improve external validity (Yin, 2003). Similarly, Eisenhardt (1989: 537) argues for theoretical sampling in case studies. According to her, the cases may be chosen to replicate previous cases or extend emergent theory, or they may be chosen to fill theoretical categories and provide examples of polar types.

Ramamurti (2000: 530) proposes that SOEs that were once privately owned (BTOs) or are still partially privately owned are more likely to be privatized than SOEs that are wholly state owned or that were created afresh by the state as statutory public corporations. The process of privatization may thus be different for firms that were SOEs from the beginning versus BTOs. The replication logic is therefore applied with this difference in mind. For theoretical replication both categories of

cases are included while for literal replication several cases for each category are included. Indosat and Semen Gresik were selected as companies which were SOE from the start while Bank Niaga, Bank Permata, Bank International Indonesia, and Bank Central Asia were selected because they were once privately owned, i.e. BTO. This differentiation tactic conforms to the aforementioned case selection and replication criteria.

3.3 Construct validity and reliability

Construct validity and reliability are both addressed during the data collection phase. The operationalized conceptual framework provides guidance on the type of data that should be collected. During data collection, several things can be done to improve construct validity and reliability (Yin, 2003). This includes using multiple sources of evidence (so that triangulation can take place) as well as using a case study protocol. The latter also helps with establishing a chain of evidence and with the development of a case study database.

3.3.1 Multiple sources of evidence

The use of multiple sources of evidence such as interviews, observations and document analysis is suggested as a tactic to improve construct validity (Yin, 2003). This was applied in the research study. For observations, direct observation was used. Direct observation is a method of data collection in which the situation of interest is watched and the relevant facts, actions and behaviors are recorded during the site visit. For the interview part, multiple respondents were used in each of the cases. Perry (1998: 794) suggests that a Ph.D. research study should have at least three interviews per case study organization. This suggestion was followed. Using multiple respondents from different levels in an organization reduces the risk of bias⁵. Respondents were differentiated based on whether they were internal to the IEPSA or whether they were external to the IEPSA (knowledgeable outside party) leading to four different categories of respondents.

Top management: high ranking executives who translate the policy (formulated by the board-of-directors) into goals, objectives, and strategies, and projects a shared-vision of the future. Top-management makes decisions that affect everyone in the organization, and is held entirely responsible for the success or failure of the enterprise. Top-management contains chairman/chairwoman, chief executive officer, managing director, president, executive directors, and executive vice-presidents.

⁵For triangulation purposes, different respondents have to answer the same set of questions. This was followed with the exception of questions about the macro environment. These were only posed to top-management and outside parties as these were the only groups with sufficient knowledge to answer these questions. It was also triangulated with secondary data and data from observation.

Line or middle management: managers who head specific departments (such as accounting, marketing, production) or business units, or who serve as project managers in flat organizations. They are responsible for implementing the top management's policies and plans and typically have two management levels below them.

Employee: A person who is hired to provide services to a company on a regular basis in exchange for compensation and who does not provide these services as part of an independent business.

Knowledgeable outside party: An individual or other entity who is not a direct party to the alliance, but who somehow has an interest in or is affected by the alliance. For example; a specific industry group, consultant or society, representatives, and deputy ministry of SOE.

3.3.2 Case respondents

Data were gathered from the sites by the help of accessible elite informants in each of the six cases. There were two elite informants in all cases. Data collection by case is provided next to illustrate where data was collected.

Indosat: Seven people were interviewed: director, top management (one respondent is in Vice President (VP) position), manager (one respondent is in Assistant Vice President (AVP) position), employees, and deputy of SOE and telecommunications consultant. The SOE key person and telecommunications consultants were from outside the alliance, so that the findings and analysis were not dependent solely on the internal organization. These respondents provided for example data concerning the prerequisites of government to the intended alliance especially about commitment for national development. During the initial phases of IEPSA, the telecommunication consultants along with the labor union protested the intention of privatization in public through demonstration and strikes.

Secondary data on the opinion of prominent people about IEPSA was also collected. The secondary data related to opinions about Indosat from the Director of Indosat, the SOE Minister, former head of House of Representative, Telecommunications analyst, and Indonesian Telecommunications Watch. The data were furthermore supplemented by using other secondary data such as annual reports, financial reports, and observations so that triangulation could take place. Table 3.1 depicts the data gathering scheme.

Table 3.1: Indosat data gathering scheme

Position	Interview	Observation	Document (Secondary data)
Top management	- Director (1) - Vice President of Strategic Planning (1)	Strikes of Indosat's union against the privatization on capitol street in Jakarta (in front of headquarter of Indosat) (1)	-4 annual reports -11 articles -2 meeting minutes of IEPSA process -30 other documents
Middle management	- Assistant Vice President of Marketing (1)		
Employees	- Employee (2)		
Knowledgeable outside party	- Deputy Ministry of SOE (1) - Telecommunications consultant (1)		

Semen Gresik: Six people were interviewed. They were the director, managers, employees, and a member of representative. The observer was from outside the company, and was knowledgeable on the cement industry from a society perspective. Secondary data was gathered related to the opinions of prominent people such as the SOE minister, CEO of Cemex, VP of Cemex, CEO of Semen Gresik, Societies, Head of IBRA. The data gathering scheme is provided in table 3.2.

Table 3.2: Semen Gresik data gathering scheme

Position	Interview	Observation	Document (Secondary data)
Top management	Director (1)	-The stakes of labor union, local government, and society flooded the capitol street of Jakarta in the beginning phases of IEPSA -Within 7 years of IEPSA, there was giant banner on the wall of headquarter protesting Cemex of pushing the government to exercise its put option with Indonesian flag ahead of it (2)	- 4 annual reports - 9 articles
Middle management	-Manager of Q & A -Manager of Human Resource (2)		
Employees	Employee (2)		
Knowledgeable outside party	Member of representative (1)		

Bank Niaga: For this case, six people were interviewed. These were: general manager of strategic planner, manager of general affairs, employees, and consultant of banking industry. Secondary data included the opinions of prominent people such as from the House of Representatives. The data gathering scheme is provided in table 3.3.

Table 3.3: Bank Niaga data gathering scheme

Position	Interview	Observation	Document (Secondary data)
Top management	-Vice President of Strategic Planner (1)	-	- 4 annual reports - 3 articles
Middle management	Assistant Vice President of General Affair (1)		
Employees	Employee (2)		
Knowledgeable outside party	- Consultant of banking industry (2)		

Bank Permata: Five people were interviewed, i.e. the government representatives, director, employee, and vice director of Asset Management Company (PPA). Secondary data included opinions from prominent people such as the CEO of Bank Permata and the Director of Asset Management Company. The data gathering scheme is provided in table 3.4.

Table 3.4: Bank Permata data gathering scheme

Position	Interview	Observation	Document (Secondary data)
Top management	-Government representative (2) -Director (1)	-	- 4 annual reports - 2 articles
Middle management	-		
Employees	Employee (1)		
Knowledgeable outside party	Vice President of PPA(1)		

Bank International Indonesia: Four people were interviewed: independent representative, director, and consultant of banking industries. Because of limited access, the data from employees were gathered in the form of secondary data. Secondary data also included opinions from prominent people about the alliance (for example the Commissioner, Societies, and the Head of Commission for the supervision of business competition (KPPU). This provided data about market, and industry attractiveness; one of the variables in the planning phase. Other sources included annual reports, financial reports and observations, see table 3.5.

Table 3.5: Bank International Indonesia data gathering scheme

Position	Interview	Observation	Document (Secondary data)
Top management	-Independent representative (1) -Director (1)	-The stakes from union were frequent before the IEPSA aspired for equal treatment between the ethnicity (1)	-4 annual reports -2 articles
Middle management	-		
Employees	-		
Knowledgeable outside party	-Consultant of banking industry (2)		

Bank Central Asia: For this case, seven people were interviewed. These were interviews with a government representative in the alliance, managers, employees, and consultant of banking industries. Secondary data included opinions about the alliance from prominent people such as: the CEO of Farallon (The secondary data from CEO of Farallon aims to confirm the data findings of foreign partner in terms of commitment to the alliance, and issues of employment), Minister of SOE, Minister of Manpower and Transmigration (It aims to confirm the requirement of the host company's part in terms of issues of employment), Head of Labor Union, and Head of IBRA (It aims to confirm the requirement of the host company's part in terms of employment, commitment, long-term relationship). The data gathering scheme is provided in table 3.6.

Table 3.6: Bank Central Asia data gathering scheme

Position	Interview	Observation	Document (Secondary data)
Top management	Government representative (1)	-The stakes of labor union and society flooded the capitol street of Jakarta in the beginning phases of IEPSA (1)	-4 annual reports -4 articles
Middle management	Manager of Marketing (2)		
Employees	Employees (2)		
Knowledgeable outside party	Consultant of banking industry (2)		

Table 3.7 provides an overview of the data that was collected overall from the different sources.

Table 3.7: Collected data

Data	Number of data points
Semi-structured interviews	34
E-mails from the international equity placement alliance processes	20
Meeting minutes from the international equity placement alliance processes	2
Business plans, draft and final alliance contracts	24
Other working documents from the international equity placement alliance processes	60
Annual reports	24

3.3.3 Case protocol

Using a case study protocol is a suggested strategy to improve the reliability of case study research (Yin, 2003). This advice was followed in the research and a main part of the protocol dealt with interviews. The characteristics of the issues in the research as well as the complexity of the topic made face-to-face a preferred choice of interview method for this study. Furthermore, personal interviews allow an opportunity for feedback and discussion, and it makes is possible to elucidate and elaborate on questions (Zigmund, 1997: 221-222).

A potential risk with face-to-face interviews is that the interviewer can influence the responses. According to e.g. Lehman et al. (1998: 193), the interviewer's opinions may influence the way in which he poses questions or the interviewer may interpret answers incorrectly because of selective perception. The interviewee may also answer questions in the way he or she thinks the interviewer wants to have them answered. To mitigate these risks, the respondents were assured of anonymity. A tape recorder was used to capture information accurately and to avoid misinterpretations. Perry (1998: 791) finds that a case study interview should always start with open questions which intend to capture the experience of the interviewee. These questions avoid leading the interviewees' answers to a certain direction. This can be followed by more probing questions which form a major part of the prepared interview protocol (Yin, 2003). This open-ended vs. probe questions tactic was used in this study.

3.4 Internal validity

The internal validity is mainly addressed during data analysis (Yin, 2003). The data analysis approach fits with the three research steps: exploration, explanation, and validation (Kerssens-van Drongelen, 2001). A general overview of the data analysis process of this study is presented in figure 3.1.

Figure 3.1: Data analysis framework

Multiple sources of data were compiled from the cases (Rowley, 2002; Yin, 2003) but only relevant data were extracted as suggested by Kerssens-van Drongelen (2001). In accordance with Eisenhardt (1989) associated characteristics of cases were determined in a cross-case matrix. In summary, the following steps were taken to collect and analyze the data:

- Gather the information based on interview
- Gather the observation data
- Gather the secondary data; documentation
- Combine a, b and c and look for patterns and explanations
- Compare across cases and draw overall conclusions

3.5 Operationalization of the conceptual framework

A critical element of the research design is the operationalization of the constructs. Measurements of constructs in each case relate to measurements at different stages in the alliance life cycle including planning phase (3.5.1), formation phase (3.5.2), operation phase (3.5.3), and termination phase (3.5.4). To distinguish levels of influences four types of terminology are used in this discussion: factor, sub-factor, component, and variable. Factor is defined as a constituent that brings about certain effects or results; it is composed of sub-factors, components, and variables. Sub-factors are a main part within a factor and sub-factors consist of several variables. A component is the term used when variables can be differentiated into groups. The measurement of the constructs

used is in accordance with figure 3.2. In the following discussion, they are treated by phase of the strategic alliance.

3.5.1 Planning phase

Three factors were identified in the previous chapter that influences the planning phase. These are: stakeholder support, strategic match, and cultural understanding.

3.5.1.1 Stakeholder support: The first main concept for the planning phase is stakeholder support. In order to receive stakeholder support early in the planning phase of the IEPsA, the prospective partners should keep informing the stakeholders about the intention to form the IEPsA, and the benefits of the alliance that might occur to them. Table 3.8 shows the operationalization of the concept of stakeholder support.

Table 3.8: Operationalization of stakeholder support concept

Factor	Sub-factor	Variable
Stakeholder support	Internal organization support	- Company restructurization - Plan for privatization
	Society support	- Change in ownership structure - Share price - Transparency of the privatization process

Figure 3.2: Conceptual framework

3.5.1.2 Strategic match: Table 3.9 illustrates the operationalization of the concept of strategic match. As presented in Chapter 2, the strategic match factor of a strategic alliance consists of capacity, complementarity, and strategic importance sub-factors (Douma, 1997; Faulkner, 1995; Lorange & Roos, 1992; Medcof, 1997; Niederkofler, 1991; Segil, 1996; Sierra, 1995).

Table 3.9: Operationalization of the strategic match concept

Factor	Sub-factor	Component	Variable
Strategic match	Capacity	Attractiveness of macroeconomic conditions	- GDP growth - Currency rate
		Attractiveness of market	- Market share - Growth of market
		Alliance track record	- Partner's experience - Partner's successfulness
		Attractiveness of product or service	- Quality of product or service - Innovativeness of product or service
		Attractiveness of technology	- Technology of product or service - Information technology
		Attractiveness of financial performance	- Profitability - Growth of revenue
	Complementarity		- Complementarity related to the attractiveness of market - Complementarity related to the strategy - Complementarity related to the attractiveness of resources
	Strategic Importance		- Pressure on continuity - Pressure of time on alliance
			- Alternative to cooperation

3.5.1.3 Cultural understanding: The last main concept in the planning phase is cultural understanding. According to Faulkner (1995), cultural congruence between companies is extremely infrequent, especially in international strategic alliances. However, an approach of understanding of cultural differences, and willingness to compromise in the event of cultural problems, may well be critical to alliance effectiveness (Faulkner, 1995). Therefore, as presented in table 3.10, components that were measured to assess cultural understanding are trust and commitment (Mohr & Spekman, 1994) with the variables; share of communication (Das & Teng, 1998) and commitment (Cullen, Johnson, & Sakano, 2000).

Table 3.10: Operationalization of cultural understanding concept

Factor	Component	Variable
Cultural understanding	Trust	- Share of communication
	Commitment	- Nurture the alliance

3.5.2 Formation phase

There are three main concepts that need to be measured in the formation phase: internal organization support, strategic planning, and cultural understanding (Lorange & Roos, 1992). The last was already discussed above so the discussion below relates to the operationalization of internal organization support and strategic planning.

Table 3.11: Operationalization of formation phase

Factor	Variable
Internal organization support	- Participation in the implementation of strategic planning
Strategic planning	- Commitment

3.5.3 Operation phase

Aside from measuring cultural understanding, which was treated the same with that in the earlier two phases, three additional measurements in this phase relate to human resource management, organizational arrangement, and management control system. Note that according to the literature study, cultural understanding between the partners should exist in all phases of the strategic alliance. The cultural understanding between the partners is a key determination of a successful strategic alliance. When comparing the result of cultural understanding in the earlier phases (planning and formation phase) with that in the operation phase there could be a change in the outcome (Lorange & Roos, 1992). This term is called the evolved cultural understanding. Therefore, factor, component, and variable in the operation phase is provided and presented in table 3.12.

Table 3.12: Operationalization of operation phase

Factor	Component	Variable
Human Resource Management		- Collaborative people
Organizational Arrangement		- Flattened organization - Decentralization of decision making
Management Control System		- Planning - Control structure - Control process
Evolved cultural understanding	Trust Commitment	- Share of communication - Nurture the alliance - Performance of the alliance

3.5.4 Termination phase

Based on Kanter (1989), Sierra (1995), Porter (1998), Mockler (1999), the factors of alliances termination can be divided into internal and external drivers. As have been discussed in chapter 2, the factor and the accompanying variables in the termination phase are presented in table 3.13.

Table 3.13: Operationalization of variables in the termination phase

Factor	Variable
Internal Driver	- Strategic objectives - Expectancy - Corporate leadership
External Driver	- External environment

3.6 Assessment of the factors, sub-factors, and components

The assessment of the factors, sub-factors, and components were undertaken based on the following method:

- For the factors, sub-factors, and components with one predecessor, the assessment is determined by the assessment of the predecessor
- For the factors, sub-factors, and components with two predecessors, i.e. internal organization support is determined by two variables, i.e. company restructuring and plan for privatization. Each of these variables has equal weight and can be positive or negative. For the overall assessment of internal organization support the two influences are added together leading to a five-point scale for internal organization support ranging from negative (-), a bit negative (-,+/- ≈ -), neutral (+/-) a bit positive (+,+/- ≈ +) and positive (+).
‘A bit negative’ and ‘a bit positive’ assessments are rounded to negative and positive assessments with notes and explanations.

- For the factors, sub-factors, and components with three predecessors, i.e. strategic importance sub-factor is determined by three variables, i.e. pressure on continuity, pressure of time on alliance, and alternative to cooperation. Each of these variables has equal weight and can be positive or negative. For the overall assessment of strategic importance the three influences are added together leading to a seven-point scale for strategic importance ranging from very negative (-), negative (-,-,+/- $\approx$ -), a bit negative (-,-,+ $\approx$ -), neutral (+/-), a bit positive (+,+,- $\approx$ +), positive (+,+,+/- $\approx$ +), and very positive (+).

‘A negative’, ‘a bit negative’, as well as ‘a bit positive’, and ‘positive’ assessments are rounded to negative and positive assessments with notes and explanations.

An example of the assessment on factors, sub-factors, and component with three predecessors is strategic match assessment. Based on the data findings in the sub-factors, the assessment of the strategic match in the IEPSA is undertaken through the following conditions.

- If there are positive influences on at least two sub-factors (among capacity, complementarity, and strategic importance) then there is a strategic match in the IEPSA.
- If there is one positive influence and two neutral influences (among capacity, complementarity, and strategic importance) then there is a strategic match in the IEPSA.
- If there are negative influences on at least two sub-factors (among capacity, complementarity, and strategic importance) then there is no strategic match in the IEPSA.
- If there is one positive influence, one negative influence, and one neutral influence on the sub-factors (among capacity, complementarity, and strategic importance) then there is a neutral strategic match in the IEPSA.
- If there are neutral influences on all sub-factors (capacity, complementarity, and strategic importance) then there is a neutral strategic match in the IEPSA.
- For the factors, sub-factors, and components with more than three predecessors than the assessment is based on the following condition: If there are positive influences on most of the predecessors then the overall influence is positive; if there are majority of negative influences on the predecessors then the overall influence is negative; if there are balanced positive and negative influences on the predecessors then the overall influence is neutral; and if there are all neutral influences on the predecessors then the overall influence is neutral.

3.7 Conclusion

In this chapter, the research methodology was discussed. The approach chosen is the case study approach which fits with the type of research that is being conducted, i.e. an exploration of how alliances are formed and managed over time. This was followed by a discussion of tactics to deal with four scientific criteria for case studies as well as on the operationalization of the conceptual framework.

CHAPTER 4: CASE STUDY OF INDOSAT

In this chapter, the case study of Indosat is presented. Section 4.1 describes the chronology of the case while section 4.2 presents the analysis of the case study based on the framework and model gathered in chapter 3 with the factors of each of the life cycle in the sub-sections. Section 4.3 provides insights gathered from section 4.1. Finally, in section 4.4 the answers to the three research questions are provided.

4.1 Description of Indosat

PT. Indonesian Satellite Tbk. (Indosat) was established in 1967 as a Foreign Capital Company, ITT, from the United States, and started operations in 1969. In 1980 Indosat became a State-Owned Enterprise (SOE), wholly owned by the Government of Indonesia. On October 19, 1994 Indosat's shares began being traded on the Indonesia Stock Exchange and the New York Stock Exchange. By 2000 (Danareka Sekuritas, 2000), Indosat was Indonesia's second state telecommunications company. In 2002 prior to the alliance, Indosat provided cellular services, international telecommunications services and satellite services for broadcasting service providers. Indosat (partially) controlled two cellular subsidiary companies; PT Satelit Palapa Indonesia (Satelindo) and PT Indosat Multi Media Mobile (IM3) and possessed a 32.9% market share in the Indonesian cellular market. It was behind the market leader, PT. Telkom Tbk. (Telkom) which controlled 47% of the cellular market in Indonesia through its subsidiary PT. Telkomsel (Telkomsel).

In September 2002, as a part of telecommunications deregulation, and in anticipation of a large cellular demand, the government of Indonesia initiated a process to offer Indosat shares to investors to form an IEPSA. This process contained several phases which will be discussed. First a description of the telecommunications industry before the intended IEPSA is provided in section 4.1.1. Then, the IEPSA initiation, which lasts until a Sales and Purchase Agreement (SPA) was reached, will be described in 4.1.2. The Indosat IEPSA was initiated in September 2002 and lasted until December 2002. The partners in the IEPSA formulated a strategic plan until March 2003 (4.1.3) and implemented this strategy (4.1.4) until the IEPSA was terminated in June 2008 (4.1.5).

4.1.1 Telecommunications industry before the intended IEPSA

Prior to the privatization process some of the telecommunications companies were jointly owned by the market leaders, i.e. PT. Satelindo (Satelindo) and PT Telkomsel (Telkomsel).

Satelindo was formed in 1993 and obtained a license for International Direct Dialing (IDD), providing phone services, and for exclusive tenure over communications satellites (Danareksa

Sekuritas, 2000). In 1994, Satelindo introduced mobile phone service and operated as a Global System for Mobile Communications (GSM) operator. It was the first GSM operator in Indonesia to issue prepaid cards and postpaid Matrix Mentari. Until 2000, Satelindo was a joint venture with several partners.

Table 4.1: Ownership structure of Satelindo until 2000

Partner	Percentage stake
Bimagraha Telekomindo (Bimagraha)	45%
Detemobil Mobilfund GmbH Deutsche Telekom (of Germany)	25%
Telkom	22.5%
Indosat	7.5%

Telkomsel was set up on May 26, 1995, as a provider of telecommunications service. It was the first operator in Asia to provide pre-paid card services. Until 2000 Telkomsel was also a joint venture with several partners.

Table 4.2: Ownership structure of Telkomsel until 2000

Partner	Percentage stake
Telkom	42.5%
Indosat	35%
PTT Telecom BV (Netherlands)	17.28%
PT Setdco Megacell Asia	5.22%

Tables 4.1 and 4.2 illustrate that there was cross-ownership between Indosat and Telkom.

In 2002, telecommunications in Indonesia was at the turning point of the reform process. It was instigated by the introduction of Telecommunications Act No. 36/1999. The new law renounced the inefficiencies borne by the old Telecommunications Act No. 3/1989 such as cross-ownership between two major telecommunications companies, exclusive position of SOE telecommunications compared with the private companies, confinement of industry where local telecommunication handled by Telkom while international telecommunications were assigned to Indosat and Satelindo, and the requirement to form a joint venture with local companies (Indosat and Telkom) to enter the Indonesian market. The new law heralded the need for competition, an independent regulatory body, an equitable interconnection scheme and a cost-based tariff mechanism (Danareksa Sekuritas, 2000).

The passage of the new telecommunications law was expected to spawn a new era in Indonesia's telecommunications industry, a period in which the improvement in efficiency, economies of scope, economies of scale and subscriber growth would be the main story (Danareksa Sekuritas, 2000). Within the new law, the government forbade practices of monopoly in the industry as regulated by

Act No. 5/1999 concerning the prohibition of the practice of monopoly and unfair competition. In implementing the law, government set up a Commission for the supervision of business competition (*Komisi Pengawas Persaingan Usaha/KPPU*). KPPU was an independent authority established to supervise the implementation of the Act concerning the Prohibition of Monopolistic Practices and Unfair Business Competition. Being independent from the influence and control of the Government and other parties, the KPPU's duties included drafting implementing regulations, conducting examinations of any party alleged to have violated Act No. 5/1999, issuing binding decisions, and imposing legal sanction(s) on any violator of the law. It reports directly to the President and the People's Representative assembly (DPR). The Commission's duty to oversee the act was implemented in terms of:

- Prohibited agreements, i.e. enter into agreements with other parties to jointly control the production and/or marketing of goods and/or services which may lead to monopolistic practices and/or unfair business competition as price fixing agreements, price discrimination, boycotts, closed agreement, oligopoly, predatory pricing, division of territory, cartel, and agreements with foreign parties that may lead to unfair competition.
- Prohibited activities, namely; control of production and/or marketing through supply arrangements, market regulation practices that can lead to monopoly and/or unfair business competition.
- Dominant position, the business is abusing its dominant position to restrict the market, consumer rights obstruct, or impede other business entrepreneurs.

With the new law in place, full competitions were initiated as the government withdrew the right of exclusivity granted to the two government-owned companies, i.e. Indosat and Telkom. Indosat's monopoly on international services (SLI) and Telkom's monopoly on local and long distance services (SLJJ) were terminated. In addition, the government endorsed a policy to ensure that there would be a minimum of two full network and service providers (duopoly) in the market. This was considered to be a transition step towards full competition.

With their exclusivity rights terminated, combined with the endorsement of the duopoly market policy, the two companies became full fixed network and service providers (FNSP).

Table 4.3: Comparisons between the old and new law of telecommunications

No.	Item	Old Law	New Law
1.	Players in the fixed-line telephone market	Cooperation between organizing bodies and private sector	Private sector, state-owned companies, regional government-owned companies and cooperatives
2.	The structure of fixed-line telephone market	Monopoly and duopoly as highlighted in the exclusive	Competition

		rights	
3.	Players in the mobile telephone market	Cooperation between organizing bodies and private sector	Private sector, state-owned companies, regional government-owned companies and cooperatives
4.	The structure of mobile telephone market	Competition	Competition
5.	Tariff	Determined by the government through demand-based pricing approach	Determined by market mechanism through cost-based approach
6.	Supply of fixed-line telephone networks	By the government through organizing bodies	By the private sector and cooperatives that seeks for a balance in the supply and demand
7.	Technology	Circuit-switched networks for voice communications and second generation of mobile cellular networks	Fixed and mobile telecommunications networks for multimedia communications; flexible for the inception of technology innovations

On April 3, 2001, as a follow-up of the Ministerial Decree 72/1999 about elimination of cross-ownership, Indosat and Telkom agreed to eliminate the cross-ownership both at Telkomsel and Satelindo accordingly. In this agreement, Indosat received the 22.5% share in Satelindo from Telkom, while Telkom received the 35% share of Indosat in Telkomsel. Furthermore, Indosat acquired Bimagraha's share as well as Detemobil's share making Satelindo a 100% subsidiary of Indosat by June 2002. Also, in the end of 2001, Telkom acquired the share owned by PTT Telecom BV of Netherlands as well as the share from Setdco Megacell Asia making Telkomsel a 100% subsidiary of Telkom.

Thus, some restructuring had taken place before the IEPSA was announced.

4.1.2 The IEPSA initiation: September to December 2002

The reason to establish an IEPSA was a Letter of Intent between the government of Indonesia and the IMF that Indosat was one of the SOEs to be planned for privatization. The objective was to help the Indonesian economy out of the crisis through privatization of SOEs.

Bidding process

On September 19, 2002 fourteen companies were approached, i.e. pre-qualified, by Ministry of State-Owned Enterprises, Indosat, Danareksa, and Credit Suisse First Boston for the privatization of Indosat (Danareksa Sekuritas, 2000)

Table 4.4: Pre-qualified investors of Indosat's IEPSA

No.	Investor	Country
1.	Across Asia Multimedia	Cayman Island
2.	AIS Fund Management	Hongkong
3.	Asia Telecommunications	Thailand

No.	Investor	Country
4.	China Network Communications Group Corp.	China
5.	EssarTeleholding	India
6.	Gilbert Global Equity Partner	United States
7.	Hi-Tech International Group	Saudi Arabia
8.	JP Morgan Asia Partner	Singapore
9.	Newbridge Capital	Canada
10.	Singapore Technology Telemedia (STT)	Singapore
11.	Telecom Ventura Group	United States
12.	Telecom Malaysia	Malaysia
13.	Telstra Corp.	Australia
14.	Usaha Tegas/DesaMahir	Malaysia

Although the identities were not revealed, on November 7, 2002, eight investors submitted preliminary bids after conducting due diligence. The due diligence is an examination aiming to make an acquisition decision via the principles of valuation and shareholder value analysis (Luis, 2010). It is essential that the concepts of valuations (shareholder value analysis) be linked into a due diligence process (Luis, 2010). Thus, six of the pre-qualified investors withdrew from the privatization process. Three of these provided their rationales. Telstra Corp. withdrew on 25 October 2002 in letter to the Ministry of State-Owned Enterprise. JP Morgan Asia Partner withdrew on November 5, 2002 and China Network Communications Group Corp. on November 6, 2002. All three parties cited as the main reasons that the due diligence period from September to October 2002 was too tight, and the occurrence of the unprecedented moment which was a Bali Bombing incident. This incident occurred on October 12, 2002 in the tourist district of Kuta on the Indonesian island of Bali. The attack was claimed as the deadliest act of terrorism in the history of Indonesia, killing 202 people, (including 88 Australians, 38 Indonesians, 24 United Kingdom, 7 United States, and other European and Asian countries). A further 240 people were injured. Telstra Corp. also cited remaining regulatory uncertainty as a reason for withdrawal. Regardless of this unprecedented moment and motivated by reducing the budget deficit of the year that was near the deadline; government proceeded to initiate the IEPsA.

To evaluate and analyze the eight bids, four evaluation teams consisting of representatives from Ministry of State-Owned Enterprises, Indosat, Danareksa, and Credit Suisse First Boston (CSFB) were formed. As presented in table 4.5 (Batubara, 2003), the evaluation team was composed of the following teams: Conforming bid, Pricing Team, Strategic Commitment, and Funding. The scores from the evaluation teams were collated and entered into a final scoring system resulting in a weighted average score for each preliminary bid.

Table 4.5: The evaluation team and its task

No.	Team	Task
1.	Conforming bid	Ensuring that the bids conforms the procedure letter
2.	Pricing	Ranking the preliminary bids based on cash offer price
3.	Strategic Commitment	Ranking the preliminary bids based on the strategic commitment to Indosat
4.	Funding	Assessing the funding capability of the prequalified investors based on the preliminary bids

Input scoring of the investor's evaluation was composed of three assessments; Financial Support, Price, and Commitment to Indosat's Strategy. Weights of the assessments scoring were set as the following (Batubara, 2003):

1. Financial Support (50%): Strong (100%), Medium (50%), Weak (0%)
2. Price (25%): Rank 1-12, 1-Highest, 12-Lowest
3. Commitment to Indosat's Strategy (25%): Rank 1-12, 1-Highest, 12-Lowest

Based on the above assessments, STT and Telecom Malaysia were the first and second rank bidders. Both bidders possessed the highest commitment to Indosat's strategy, and strong financial support. In terms of price, STT was the second rank, and Telekom Malaysia was fourth behind the first rank Hi-Tech International. But, Hi-Tech International was considered low rank by the evaluation team in terms of financial support. The assessment is presented in table 4.6 (Batubara, 2003).

Table 4.6: The assessments of the big three investors

No.	Investor	Financial Support	Price	Commitment
1.	STT	Strong	2 nd	1 st
2.	Telecom Malaysia	Strong	4 th	2 nd
3.	Hi-Tech International	Weak	1 st	3 rd

STT, a Singaporean SOE under Temasek Holdings, was declared as the winner to form a SPA in December 2002. STT had formed several strategic alliances with multinational telecommunications companies, such as StarHub, Equinix, Global Crossing, and Tele Choice and the results had been successful. STT's excellent track record in forming the strategic alliances was proven by its good performance of the alliances. In addition, it was another victory for Temasek Holdings. Previously, Singtel which was another Temasek Holding had acquired a 35% share of Telkomsel.

Lee Theng Kiat, President and Chief Executive Officer (CEO) of STT stated that "with our sound solid performance and experience, this investment would alter the telecommunications industrial map and service standards in Indonesia to become more competitive and customer focus oriented" (Indosat, 2002). In other words, there existed a fit in objectives between the partners. He implied that the intended IEPSA guaranteed employment through the development of business and support

the revival of industry. He also announced that the investment could be supported by the financial capability and technological expertise of STT. As a result, there was a security of employment.

The SPA consisted of commitment of STT to the alliance in terms of:

1. Enhancing the performance of Indosat
2. Transferring technology and expertise to Indosat
2. Participating to support a conducive telecommunications industry

Figure 4.1 presents the new ownership structure of Indosat. Although the proportion of shares sold was not in accordance with the parliament requirement that the local partners had majority stakes in the alliance, but the desire for the IEPSA was stronger and so it was approved.

Figure 4.1: Ownership structure of Indosat after IEPSA

The alliance partners

Indosat was considered as one of the leading telecommunications companies in terms of product and service quality. Indosat's products ranged from fixed line telecommunications, cellular services, multimedia, to data communication and internet (MIDI) solutions, and others. Several years prior to the alliance, Indosat focused only on the International Direct Dialing (IDD).

At the time of the alliance, the ranges of products of Indosat were the same as those of STT which consisted of wireless telephony, and global internet protocol (IP). The products and its services offered were based on different opportunities in the market. At the time of the alliance initiation Indosat focused not only on the call but also on short text messaging to accommodate the market demand. STT did not focus on the fixed line telecommunications. It was a company that was aimed to create value by investing in and managing information-communications businesses. STT's group of companies provided a full range of information, communications, and entertainment services over fixed line, mobile and the Internet.

Target markets of Indosat were the medium to high-income customers. Subscribers mostly originated from these segments of customers. Due to the economic crisis, the number of cellular subscribers in the low segment did not increase considerably (Indosat, 2002). However, as the economy improved it was expected that medium to low-income segment would be the fastest

growing segment (Indosat, 2002). Cellular infrastructures were not well developed, i.e. the voice quality and coverage were not clear and widely extant (Danareksa Sekuritas, 2000).

STT's market in Singapore was mature, indicated by number of subscribers which had reached the 70% of its 4.5 million inhabitants (Danareksa Sekuritas, 2000).

Technology

The state of technology of both partners was categorized as leading in their respective domestic market (Danareksa Sekuritas, 2000). Indosat had already integrated and made use of Information Technology (IT) to communicate, disseminate data, and operate its value chain activities. Indosat's products and services technology was considered as one of the best in Indonesia and it supported by wide coverage of Base Transceiver Station (BTS) all over the country (Danareksa Sekuritas, 2000).

Capital need

With a goal of increasing the number of customers and to become more competitive, Indosat needed financing from STT which had an attractive bond rate of AA (Indosat, 2002). Furthermore, Indosat also expected to reduce cost, maximize revenue, and increase market share (Indosat, 2002). For the third quarter in 2002, Indosat's revenue increased to Rp 4.91 trillion with a sales growth of 30%, compared to the previous period (Rp 4.02 trillion). However, depreciation expenses⁶ went up by 76% from Rp 717.8 billion to Rp 1.26 trillion. Therefore, the profit went from Rp 1.45 trillion in 2001 to Rp 435.5 billion in 2002, a decrease of 64%.

STT was in a saturated domestic market. The CEO of STT said "Basically, we are committed to and will invest for long in Indonesia" (Indosat, 2002). This is due to the fact that abundant of opportunities existed in the Indonesian telecommunications market. When compared with the teledensity index⁷ of Singapore which was 70%, the index in Indonesia was a mere 3%.

Strategies

Both partners had a corporate growth strategy where Indosat's strategy was to grow especially in the cellular business and STT preferred to look for developing market in implementing its growth strategy.

The domestic partner intended to take advantage of the potential cellular market development although its financing capability and technological expertise were not able to support it. The foreign partner searched for a new vast developing cellular market outside the already mature domestic

⁶The income statement account which contains a portion of the cost of plant and equipment that is being matched to the time.

⁷The number of cellular line telephones in use for every 100 individuals living within an area.

market. Both partners treated the alliance as an important opportunity to grasp for the sake of their existences.

Indosat was an important strategic partner for STT to invest in and object of entry to Indonesian telecommunications market. STT was a good partner with financing capability, and technological expertise which would help increase the Indosat's market share. However, there were alternatives to cooperation for both partners, meaning several prominent telecommunications companies existed in Indonesia, such as Excelcomindo and Telkomsel and in the region such as Telekom Malaysia, Telstra of Australia, etc. could be alternatives to cooperation. On December 15, 2002, government of Indonesia and STT reached a SPA.

The economic environment and share price

In 2002, the Indonesian macroeconomic condition had improved compared to three years earlier when the Asian economic crisis hampered the country. This was reflected by GDP Growth of 0.2% in 1999, 3.5% in 2000, and 5.0% in 2001, as well as fluctuating exchange rates of Rupiah to U.S. Dollar by as much as 47%, from Rp 7,085 in 1999, Rp 9,595 in 2000, and Rp 10,400 in 2001. However, the inflation rate was still high. It was 20.32% in 1999, 4.52% in 2000, and 12.02% in 2001. The Index of the Jakarta Stock Exchange in 2002 was 425. It had bounced back from 392 in 2001 and 416 in 2000.

The cellular industry was thriving, overtaking the fixed lines market that initially was the dominant mode of telecommunications in Indonesia. By the end of 2002, the number of subscribers increased from 5.9 million in 2001 to reach 10.1 million as presented in table 4.7 (Danareksa Sekuritas, 2000). In terms of market share, Indosat can be categorized as one of the dominant cellular companies.

Table 4.7: Number of subscribers (Danareksa Sekuritas, 2000)

Service Operator	2000	2001	2002
Telkomsel	1,587,300	3,252,032	4,760,609
Satelindo	1,055,306	1,500,000	2,992,383
Excelcomindo	767,250	900,000	1,768,226
Metrocel	62,391	72,928	108,814
Komcelindo	74,868	39,255	54,407
Telesera	7,556	10,012	17,682
Mobisat	14,037	9,579	10,881
IM3	-	150,000	337,323
Natindo	-	-	85,691
Total Subscribers	3,568,708	5,933,806	10,136,017

The trend of share price development seven months prior to the establishment of the alliance is presented in table 4.8. From the table, it can be obtained that: seven months before the SPA, the price of Indosat's share in the stock exchange had decreased by 30% from 12,600 to 8,500.

Table 4.8: The downturn of Indosat's share six months before IEPSA

No.	Month	Share Price	Situation
1.	June 2002	Rp 12,600	The government announced the selling of some shares to form an IEPSA
2.	July 2002	Rp 10,500	The price decreased further and plummeted in Rp 8,500
3.	August 2002	Rp 9,500	
4.	September 2002	Rp 8,500	
5.	October 2002	Rp 7,500	Bali bombing incident
6.	November 2002	Rp 8,500	The price pulled back after the bombing
7.	December 2002	Rp 8,500	The month of SPA

In October 2002, Indosat's share price on the Jakarta Stock Exchange was about 40% below the share price paid by STT which was Rp 12,950 per share (Rais, 2003). In fact, it was much lower than the fair value price of Rp 43,105 per share as presented in table 4.9. The reason for comparing the price with the fair value of the company is to take the current as well as the future into account (Malhotra, 2003). This was in line with Leon Chic's, regional analyst at ING Groep NV, statement that "Telecom services companies in Indonesia are undervalued making them as one of the most attractive markets in Asia" (Rais, 2003). Moreover, one of Goldman Sach's financial consultants of STT in Indosat stated that "Our offer of Rp 12.950 per share was actually cheap in accordance with EBITDA multiplier. Indosat's share was three times the cash flow, although other telecommunication companies in Asia could reach the valuation of as much as five to seven times". So that, Indonesian government earned cash from transaction to reduce the budget deficit which was high compared with the share price in the bourse but actually low share price when confronted with the value of similar telecommunications companies in Asia.

Table 4.9: Comparison between selling share price and fair value of Indosat

No.	Item	Selling price	Fair Value
1.	Value per share	Rp 12,950	Rp 43,105
2.	Amount of 41.94 % share of equity	Rp 5.62 trillion	Rp 18.77 trillion

Problem with transparency during initiation

There were issues of transparency which can be traced by revealing the identity of financial advisors and underwriters, announcement of offering price, and the existence of a Special Purpose Vehicle (SPV⁸).

⁸ It is a legal entity created to fulfill specific objective of forming the IEPSA

During the initiation of the privatization there were two important issues. The first was the planning of the IEPSA. The second was the possibility of issuing additional shares to raise equity offerings in the stock exchange. They occurred simultaneously although the issuing of additional shares was turned down. With regard to these two issues, the government hired Danareksa and Credit Suisse First Boston (CSFB) as the financial advisor and underwriter whereas Indosat appointed Mandiri Sekuritas and Merrill Lynch as its financial advisors. A question concerning transparency arose because this situation could lead to ‘fixing or cornering the price’ between the price in the SPA and stock exchange price. Also, CSFB did not have a license to operate in Indonesia. Furthermore, it was revealed that CSFB offered Nusantara Capital Management (a company established just 1.5 years earlier) a project to seek out investors for buying the government’s shares in Indosat. Yet, Nusantara Capital did not have a license from *Badan Pengawas Pasar Modal/Bapepam* (the Capital Market and Financial Institution Supervisory Board) as a broker, underwriter, and investment advisor (Rais, 2003).

Second, the SPA was announced on a non-business day, i.e. a Sunday, and the government did not announce the offering price of Telekom Malaysia (Rais, 2003). Nevertheless, it was expected that the growth potential of Indosat should be reflected in a higher value. However, comparing the fair or fundamental value with the bidding price, raised suspicions with regard to transparency of the bidders (Telekom Malaysia and STT Singapore). Both offered much lower prices. Furthermore, allegedly related to the upcoming national election, it was suspected that the ruling political party in the government had received a percentage of Indosat’s incoming fund. The data sources of transparency problem were obtained by Batubara (2003) from the report of Ministry of State-Owned Enterprise on the scheme of funds received from the alliance. It is presented in table 4.10.

Table 4.10: The scheme of transaction cost of Indosat’s IEPSA

No.	The transactional fund received	Amount in US \$
1.	Received fund from the SPA, selling 41.94% of the government’s shares in Indosat	627,353,886
2.	Retained fund until changes in the statute	25,000,000
3.	Transactional expenses - Financial consultant expense - Law consultant expense - Notary expense - Road show expense - Crossing expense - Escrow agent expense - Out of pocket expense	18,939,988
4.	Fund transferred to the government account	583,413,898

The transactional expenses were a little over 3% of the amount of the funds received. General practice was that the proportion of financial consultant expenses accounts for 1.5% to 2%. In recent

years, financial consultant expenses have decreased to 1% while other expenses except the law consultant expert were considered insignificant. Based on this, it can be estimated that the transactional expenses should have been no more than US\$ 12 million. The question raised by the society concerning the transactional expenses was “where had that part of fund worth of US\$ 6 million been gone” (Rais, 2003). The situation raised suspicions that part of the funds was transferred to a certain political party (since the SPA was near to the upcoming national election).

Third, the foreign party in the SPA agreement was not STT, but a Mauritius-based special purpose vehicle company called Indonesia Communication Limited (ICL) as presented in figure 4.2. The entities of ‘other investors’ behind ICL were unclear. Due to these transparency issues and also due to concerns about opposition from stakeholders, the representative of directors from STT was domiciled in a separate office from Indosat’s headquarter for several months. The purpose was to conceal themselves from the threat of stakeholder opposition.

Although there were transparency issues in the process of the IEPSA initiation, the partners (STT and government of Indonesia) never communicated to the stakeholders to clarify such issues. Communication was important since it could clarify the issues which led to opposition raised by the stakeholders inside the company. As such, part of managements and employees raised the transparency issues such as performing on street protests and conducted strikes opposing the intended IEPSAs. This situation influenced negatively to the degree of internal relationship⁹.

Figure 4.2: The parties involved in the SPA: intended and fact

4.1.3 Setting up the IEPSA: January to March 2003

In January 2003, after the SPA had been signed the partners worked on formulating a strategic plan together. Both partners pledged to implement the strategic plan and to prevent employee downsizing by growing the alliance.

⁹ It is the degree of engagement among employees, managers, and owners which can be shown by sharing of information and feeling of empathy.

The strategy was initiated by the board of directors of Indosat (see table 4.11), consisting of five directors from Indonesia and four from directors from Singapore.

Table 4.11: Board of Directors of Indosat

No.	Name	Position	Nationality
1.	Widya Purnama	President Director	Indonesia
2.	Ng Eng Ho	Deputy President Director	Singapore
3.	Hasnul Husaimi	Director of Cellular Marketing	Indonesia
4.	Wityasmoro Sih Handayanto	Director of Infrastructure	Indonesia
5.	Emil Soedarmo	Director of Fixed Communications	Indonesia
6.	Junino Jahja	Director Multimedia	Indonesia
7.	Joseph Chan Lam Seng	Director of Network Integration	Singapore
8.	Nicholas Tan Kok Peng	Director of Finance	Singapore
9.	Raymond Tan Kim Meng	Director of Business Development	Singapore

The new vision and mission was developed by the President Director assisted by the Deputy of President Director and discussed with other Directors. The vision of Indosat was to be the provider of choice for information and communication solutions. The mission was to provide and develop innovative and quality products, services and solutions, which offered the best value to the customers. In terms of strategic formulation, it was initiated by the Director of Business Development in formulating strategy; corporate and competitive aligned with the new vision and mission. The functional strategies along with the assigned activities were developed based on the discussions among directors. These functional strategies were aligned with the corporate and the competitive strategies of Indosat. The developed strategies and activities were reported and consulted to the Commissioners consisting of two Indonesian and four Singaporean as in table 4.12.

Table 4.12: Board of Commissioners of Indosat

No.	Name	Position	Nationality
1.	Peter Seah Liam Huat	President Commissioner	Singapore
2.	Lee Theng Kiat	Commissioner	Singapore
3.	Sio Tat Hiang	Commissioner	Singapore
4.	Sum Soon Lim	Commissioner	Singapore
5.	Roes Aryawijaya	Commissioner	Indonesia
6.	Umar Rusdi	Commissioner	Indonesia

The regular planning was differentiated into five-year, annual, and monthly plans with coverage at the level of the individual, the division and the corporation. The strategies and the supporting activities are presented in table 4.13.

Table 4.13: Strategy components of Indosat in 2002

No.	Strategy components	Description
1.	Vision	To be the provider of choice for information and communication solutions
2.	Mission	<ul style="list-style-type: none"> • To provide and develop innovative and quality products, services and solutions which offer the best value to our customers. • To grow shareholder value continuously. • To provide better quality of life to the stakeholders.
3.	Corporate Strategy	Growth strategy to anticipate the growing number of cellular subscribers which in the last decade had surpassed the number of fixed telecommunications.
4.	Competitive strategy	Provide the integrated premium products and services in cellular business, IDD business, and MIDI business.
5.	Functional strategy	<ul style="list-style-type: none"> • Integrate and develop cellular services to pursue growing cellular business opportunities in Indonesia. • Maintain IDD business and deploy fixed access network selectively in prospective domestic markets. • Nurture MIDI business growth.
6.	Activities	<ul style="list-style-type: none"> • Improve and increase the cellular products • Provide premium IDD services • Increase Broadband Data Communication products • Increase Multimedia & Internet products • Synergize product and service • Provide service excellence • Build strong branding

The alliance planned to increase the number of Base Transceiver Station (BTS) as much 1,000 units annually. It was aimed to improve the profitability, increase quality, acquire more customers, and increase the market share. The alliance positioned the IDD 001 service strategically for the high-end corporate market segment, while also targeting middle and retail IDD market segments with Satelindo's IDD 008 service and Voice on Internet Protocol (VoIP) GlobalSave 17001 service. Indosat planned to nurture the steady growth of MIDI services, the second largest growing revenue base after cellular.

During this time period, the sharing of communication was not intensified and the partners never communicated information to the stakeholders. Also, from Indosat's viewpoint, issues such as the threat of losing jobs, the transparency of the alliance planning process, and the existence of a special purpose vehicle (Rais, 2003) persisted. There were managers and employees who opposed the alliance initiation. They were exiled and not included in the implementation of strategic plan and subsequently were offered to follow a retirement program.

4.1.4 Running the IEP SA: April 2003 to May 2008

Human resources

When the strategic plan was implemented, the alliance committed to enhance its human resources through training and people development programs. The programs were generated with the goal to create people who were concerned not just for themselves but also for others. It covered topics such

as integrity, cooperation, excellence, partnership, and customer focus. The alliance provided 7 training days per employee or about 3% of total working days. Two years after the initiation of the alliance, it had organized 252 in-house training sessions and 314 external training programs. It had invested a total of Rp 15.8 billion. Human resource management through developing collaborative people had contributed to the successfulness of planning and control structure performance in the management control system factor according to the vice president of strategic planning.

The CEO of Indosat, Ng Eng Ho from STT, regularly declared a long-term commitment to the alliance and employees. Communication and direct contact between employees and top management occurred frequently. In the IEPSA, all decision making was accomplished within the alliance and away from STT's headquarter. Furthermore, the alliance decentralized and empowered the organization with the objective to stay close to and be responsive to the customers. The alliance developed this new operating model by transforming and expanding the roles of the regions to become more independent and responsive to market development.

Management of the alliance

The alliance set up control mechanisms to support the achievement of its vision and mission. An audit and remuneration committee was developed to assist the board of commissioners with the execution of their duties. Each committee had a written charter outlining its duties and responsibilities. This was approved by the board of commissioners, therefore, can be considered as having a positive influence on the management control system. The alliance regularly conducted planning which had a positive influence on the management control system.

Each division was assigned responsibilities to ensure that the alliance objectives could be achieved. The divisions were also in charge of the control process. The control process was not only based on the divisional performance but it cascaded down to the individual level. In the broader scope of the corporation, the audit committee conducted audits on the divisional performances within the alliance. The findings of these audits were reported to the remuneration committee. This committee determined the appropriate rewards and punishments. This process aligned the corporate objectives of the alliance with the organizational objectives. This contributed to an improved cultural understanding between partners which consequently led to taking of more risk by providing full commitment to each other.

Indosat determined that it was necessary to provide an integrated, one-stop excellent service to the customers. It aspired to be able to better anticipate and deliver per the customers' requirements and provide faster control to the alliance. Therefore, in November 2003 the IEPSA merged the two

subsidiaries IM3 and Satelindo into the corporation. This created a challenge to bring together three different organizations with different cultures and policies.

Trust

Stakeholders support had improved in such a way that there existed an increased mutual commitment between the partners. In the earlier phases, problems with stakeholder support had negatively influenced the successfulness of the alliance. However, in this operation phase, both partners improved the conditions by sharing information and socializing programs, enhancing human resource management, and aligning the objectives.

Performance of the alliance

After the IEPSA's in 2002, there had been a remarkable growth in the Indonesian telecommunications industry. There was a soaring increase of subscribers in Indonesia from 10.1 million in 2002 to 80.8 million in 2007. The accompanying penetration rate was 2% in 2001 to 36% in 2007. In big cities such as Jakarta, the penetration rate was 100%. The number of cellular subscribers in Indonesia is presented in figure 4.3.

Figure 4.3: The number of cellular subscribers in Indonesia

Indosat had become the telecommunications service provider in Indonesia offering the widest range of integrated services including Cellular, Fixed Telecommunication and MIDI (Annual Report of Indosat, 2008). Indosat was committed to nurturing growth in its business by maintaining and

improving its market position through network expansion, continuous product and service innovation as well as improvements in distribution networks.

In order to increase the call quality and reliability, Indosat had increased the number of BTS from 2,736 units in 2002 to 7,666 units in 2007. The number of Indosat's subscribers increased from 3.3 million in 2002 to 24.5 million in 2007. However, the market share declined from 2002 to 2007.

It had been a pioneer and leader in two important areas for the future; Data and Wireless Broadband. On the Data front, it led the field in Indonesia's BlackBerry market. It continued to provide more value-added services to customers namely I-GPS and I-Stock which could only be downloaded by BlackBerry customers (Annual Report of Indosat, 2008). In terms of Wireless Broadband, in 2007, it had become the first operator in Indonesia to offer pre-paid services through its subsidiary IM2. It was one of the hottest consumer broadband products on the market (Annual Report of Indosat, 2008).

Indosat had invested around US\$ 200 million in the new Palapa-D satellite project to further improve the network coverage and reliability.

In terms of profit and ROE, they increased significantly from 2002 to 2007. The cellular's revenue comprised 77% of the total revenue of Indosat, while MIDI's and Fixed telecommunication's revenue comprised of 13% and 10%.

The indicators and performance of Indosat in 2002 and 2007 are presented in table 4.14.

Table 4.14: Indicators and performances of Indosat in 2002 and 2007

No.	Indicator	2002	2007
1.	Number of subscribers	3.3 million	24.5 million
2.	Market share	32.9%	30.3%
3.	Profit	Rp 336 billion	Rp 2.04 trillion
4.	ROE	3.17%	12.34%
5.	Cellular revenue	Rp 3.27 trillion	Rp 12.8 trillion
6.	MIDI revenue	Rp 1.26 trillion	Rp 2.17 trillion
7.	Fixed telecommunication revenue	Rp 2.14 trillion	Rp 1.57 trillion
8.	Number of BTS	2,736 units	7,666 units

4.1.5 Closing of the IEPSA: June 2008

The IEPSA was terminated in June 2008 when *Komisi Pengawas Persaingan Usaha/KPPU* (Commission for the Supervision of Business Competition), at the Central Jakarta District Court, sued Temasek Holding consisting of STT and Singtel for monopolistic practices and unfair business competition. The court decided that Temasek Holding had violated Article 27 letter (a) of Act No. 5 Year 1999. Temasek was ordered to pay a fine of Rp 15 billion to the state treasury. In addition, it had to give up the ownership in Indosat or Telkomsel by releasing shares in one of those companies or to reduce its stock to less than 50% in Telkomsel and Indosat within 12 months.

As presented in figure 4.4, Temasek through its subsidiaries had 35% of shares with voting right in Telkomsel, the right to nominate directors and commissioner, and the authority to determine company policy direction especially in terms of budget approval by capital expenditure committee and the ability to veto the decision of the Annual General Meeting of shareholders in the case of an amendment, buy back shares, merger, consolidation, acquisition, dissolution and liquidation of the company.

The same thing happened also to Indosat, Temasek had 41.94% of shares with voting rights in Indosat, the right to nominate directors and commissioners and authority to determine company policy direction of Indosat. Other shareholders were government of 15% and the public at 43.06%. Publicly traded shares in the equity markets of Indonesia and the United States was in the state of ever-changing ownership and overall it was almost impossible to act together. Therefore, Temasek was an active controller in Telkomsel and Indosat. Thus, Temasek through its subsidiaries had dominant control in Telkomsel and Indosat which was against the law.

Figure 4.4: Ownership of Temasek Holding Limited

On June 6, 2008, Temasek opted to sell its stake in Indosat to Qatar Telecom (Qtel) which was worth US\$ 1.8 billion. The reason why Temasek chose Indosat to be abandoned than Telkomsel was the failure to meet synergy to increase market share. From 2002 to 2007, the market share of Indosat plunged from 32.9% to 30.3% while Telkomsel's increased from 50.47% to 51.14%. Considering the situation, STT thought it was better to leave the alliance provided that they had acquired capital gain when compared with the initial price in the SPA as much as 300%. The Qtel Group is a leading international communications company, with a headquarters in Doha, Qatar. It has a significant presence in the Middle East and North Africa region and Southeast Asia, and has a consolidated customer base of 83 million as of December 2011. Currently, it operates a portfolio of brands including Qtel, Indosat, Asiacell, Wataniya, Nawras, Nedjma and Tunisiana.

4.2 Analysis

In this section, the model from chapter three is applied to ‘evaluate’ the Indosat IEPSA. The description provided in section 4.1 is similar to the phases identified in chapter three. It can therefore be concluded that the life cycle of the IEPSA is in accordance with the theory described in the previous chapter differentiated into a planning, formation, operation, and termination phase.

Table 4.15: Time and duration of each phase

No.	Phase	Time	Duration
1.	Planning	September to December 2002	4 months
2.	Formation	January 2003 to March 2003	3 months
3.	Operation	April 2003 to May 2008	62 months
4.	Termination	June 2008	1 month

This section provides an analysis of the presence/importance of the factors from the model, i.e. stakeholder support (4.2.1), strategic match (4.2.2), cultural understanding (4.2.3), internal organization support (4.2.4), strategic planning (4.2.5), human resource management (4.2.6), organizational arrangement (4.2.7), management control system (4.2.8), evolved cultural understanding (4.2.9), internal driver (4.2.10), and external driver (4.2.11).

4.2.1 Stakeholder support

Internal organization support: although both partners had a plan for the privatization, no restructuring took place. Thus, internal organization support was neutral.

Society support: there was a change in the ownership structure, i.e. the government gave up its majority stake which potentially induced protest on the side of society since it eliminated the dominant ownership of government in the alliance. The share price had a negative influence, i.e. the price paid for shares was below the fair value, and there was a lack of transparency. Thus, society support was negative.

Based on this, it can be concluded that stakeholder support for the alliance during the planning phase of the IEPSA was negative. Lack of stakeholder support was also evidenced by a national-wide strike such as from Indonesian Telecommunications Watch, and members of Representatives on December 27, 2002. An overview is provided in table 4.16.

Table 4.16: Relationships for the stakeholder support factor

No.	Variable	Sub-Factor	Factor
1.	Company restructuring (-) Plan for privatization (+)	Internal organization support (+/-)	Stakeholder support (-)
2.	Change in ownership structure (-) Share price (-) Transparency of the privatization process (-)	Society support (-)	

4.2.2 Strategic match

Attractiveness of macro-economic conditions: The last three years of GDP growths were below its inflation rates within the same period. The exchange rates of Rupiah to U.S. Dollar fluctuated by as much as 47%. Thus, GDP growth and currency rate were negative.

Attractiveness of market: the market share of Indosat was 32.9% and ranked 2 in the top ten cellular providers in Indonesia. In terms of growth of market, it was almost 100% from 2001 to 2002. Based on this, market share and growth of market were positive.

Alliance track record: both partners had experienced successful strategic alliances with local as well as foreign partners. Thus, the alliance track record was positive.

Attractiveness of product or service: the quality of product and service were good and Indosat was innovative in adapting products or services to different market opportunities. Thus, the attractiveness of product or service was positive.

Attractiveness of technology: The state of technology of Indosat was categorized as leading in domestic market (Danareksa Sekuritas, 2000). Indosat had already integrated and made use of Information Technology (IT) to communicate, disseminate data, and operate its value chain activities. Based on this, technology of product or service and information technology were positive.

Attractiveness of financial performance: the ROE was less than WACC while growth of sales exceeded 10%. Thus, attractiveness of financial performance was neutral.

Capacity: the combination of the six components discussed above leads to the conclusion that the capacity had a positive influence on the strategic match.

Complementarity related to the attractiveness of the market: since the foreign partner's market was in the state of maturity while domestic partner's was in a growth period it can be concluded that this was positive for complementarity.

Complementarity related to the strategy: since both partners were following a growth strategy, it can be concluded that this was positive for complementarity.

Complementarity related to the attractiveness of resources: the domestic partner benefited from the technological expertise of the foreign partner. This was especially in the cellular and internet

telecommunications services. Furthermore, Indosat was able to obtain low cost financing through highly rated STT's bond. In return, through achieving this opportunity the IEPSA would provide dividend for the foreign partner. It can be concluded that the complementarity of the attractiveness of resources was positive.

Complementarity: the combination of the three influencing variables discussed above leads to the conclusion that complementarity had a positive influence on the strategic match.

Pressure on continuity: both partners showed commitment to continue the alliance. Thus, pressure on continuity was positive.

Pressure of time on alliance: Both partners treated the alliance as an important opportunity to grasp for the sake of their existences. Thus, pressure of time of alliance was positive

Alternative to cooperation: both partners had other alternatives to forming IEPSA. Thus, the alternative to cooperation can be considered negative.

Strategic importance: the combination of the three influencing variables discussed above leads to the conclusion that strategic importance had a positive influence on the strategic match.

Based on this, it can be concluded that the strategic match of the two partners in the alliance during the planning phase of the IEPSA was positive. An overview is provided in table 4.17.

Table 4.17: Relationships for the strategic match factor

No.	Variable	Component	Sub-Factor	Factor
1.	GDP growth (-) Currency rate (-)	Attractiveness of Macroeconomic situation (-)	Capacity (+)	Strategic match (+)
2.	Market share (+) Growth of market (+)	Attractiveness of market (+)		
3.	Partner's experience (+) Partner's successfulness (+)	Alliance track record (+)		
4.	Quality of product or service (+) Innovativeness of product or service (+)	Attractiveness of product or service (+)		
5.	Technology of product or service (+) Information technology (+)	Attractiveness of technology (+)		
6.	Profitability (-) Growth of revenue (-)	Attractiveness of financial performance (-)		
7.	Complementarity related to the attractiveness of market (+) Complementarity related to the strategy (+) Complementarity related to the attractiveness of resources (+)		Complementarity (+)	
8.	Pressure on continuity (+) Pressure of time on alliance (+) Alternative to cooperation (-)		Strategic importance (+)	

4.2.3 Cultural understanding

Share of communication: in the planning phase of the alliance, the share of communication between the partners and stakeholders was infrequent. Thus, the share of communication was negative.

Nurture of the alliance: the partners were willing to nurture the alliance by developing, supporting, and enhancing the performance. Thus, this variable was positive.

Based on one negative and one positive influencing variable, it can be concluded that the cultural understanding in the alliance during the planning phase of the IEPSA was neutral. An overview is provided in table 4.18.

Table 4.18: Relationship in cultural understanding factor

No.	Variable	Component	Factor
1.	Share of communication (-)	Trust (-)	Cultural understanding (+/-)
2.	Nurture the alliance (+)	Commitment (+)	

4.2.4 Internal organization support

Participation in the implementation of strategic planning: People who participated in the strategic planning were provided with the Employee Stock Ownership Plan (ESOP). In contrast, people who were thought to have opposed the alliance initiation were exiled and not included in the planning. Although these people were not laid off, they were in effect jobless and unlisted from the ESOP, and later offered to follow a retirement program. Both partners tried to gain labor union support through frequent socialization and dialogue. The new owners only included those people who were proponents of the alliance in the implementation of strategic planning. Thus, the internal organization support was neutral since part of the internal organization support the alliance and part of it opposed the alliance.

Table 4.19: Relationships for the internal organization support factor

Variable	Factor
Participation in the implementation of strategic planning (+/-)	Internal organization support (+/-)

4.2.5 Strategic planning

Commitment: In terms of strategic planning, there was a positive influence from the commitment of both partners. The alliance committed to increase the number of BTS, improve the profitability, increase quality, acquire more customers, and increase the market share.

Table 4.20: Relationships for the strategic planning factor

Variable	Factor
Commitment (+)	Strategic planning (+)

4.2.6 Human resource management

Collaborative people: the alliance committed to build its human resources through training and people development programs. They organized hundreds of in-house training sessions, external training programs, and provided 3% of total working days for people development. Thus, human resource management was a positive factor during the operation phase.

Table 4.21: Relationships for the human resource management factor

Variable	Factor
Collaborative people (+)	Human resource management (+)

4.2.7 Organizational arrangement

Flattened organization: the organization structure was flattened by absorbing the subsidiaries into the corporate office. Furthermore, top management was considered having frequent direct contact with the employees. Thus, the flattened organization was positive.

Decentralization of decision making: the alliance decentralized its decision making to the regional area. Thus, the decentralization of decision making was positive.

Based on two positive influencing variables it can be concluded that the organizational arrangement during the operation phase of the IEPSA was positive. An overview is provided in table 4.22.

Table 4.22: Relationships for the organizational arrangement factor

No.	Variable	Factor
1.	Flattened organization (+)	Organizational arrangement (+)
2.	Decentralization of decision making (+)	

4.2.8 Management control system

Planning: Each division committed to ensure that the alliance objectives could be achieved. Thus, the planning was positive.

Control structure: The audit committee conducted process feedback on performance by auditing on the divisional performances within the alliance. The findings of these audits were reported to the remuneration committee. Thus, control process was positive.

Control process: The control process was not only based on the divisional performance but it cascaded down to the individual level. This process aligned the corporate objectives of the alliance with the organizational objectives. Thus, the control process was positive.

Based on three positive influencing variables it can be concluded that the management control system during the operating phase of the IEPSA was positive. An overview is provided in table 4.23.

Table 4.23: Relationships for the management control system factor

No.	Variable	Factor
1.	Planning (+)	Management control system (+)
2.	Control structure (+)	
3.	Control process (+)	

4.2.9 Evolved cultural understanding

Trust: sharing of communication between partners to the organization was frequent. Thus, share of communication was positive.

Commitment: both partners nurtured the alliance which resulted in a high performance of the alliance especially on increasing the number of subscribers and profits. Thus, nurturing of the alliance was positive during the operating phase. With profit of Rp 2.04 trillion, the ROA of 6.47% was below the WACC of 13%. Thus, performance of the alliance was negative.

Based on the combination of the two components discussed above it can be concluded that the evolved cultural understanding factor during the operating phase of the IEPSA was positive. An overview is provided in table 4.24.

Table 4.24: Relationships for the evolved cultural understanding factor

No.	Variable	Component	Factor
1.	Share of communication (+)	Trust (+)	Cultural understanding (+)
2.	Nurture the alliance (+)	Commitment (+/-)	
3.	Performance of the alliance (-)		

4.2.10 Internal driver

Strategic objectives: The partners in the alliance were able to achieve its objective of performances.

Thus, it is not the cause of termination.

Expectancy: The partners in the alliance were able to achieve its expectancy. Thus, it is not the cause of terminations.

Corporate leadership: There was no change in corporate leadership. Thus, change in corporate leadership was not the cause of the termination of the alliance.

All in all, in terms of internal driver, the strategic objectives, expectancy, and corporate leadership were not the variables which cause the alliance into termination.

Table 4.25: Relationships for the Internal driver factor

No.	Variable	Factor
1.	Strategic objectives (+)	Internal driver (+)
2.	Expectancy (+)	
3.	Corporate leadership (+)	

4.2.11 External driver

External environment: there was a change in the environment related with the advent of regulation on monopolistic practices and unfair business competition which forbid practice of monopoly undertaken by the company within one holding company (STT Singapore and Singtel under Temasek Holding which occupied 41.94% share in Indosat and 35% in Telkomsel). Thus, it was the cause of the alliance termination.

Based on this the external driver was the cause of the alliance termination.

Table 4.26: Relationships for the external driver factor

No.	Variable	Factor
1.	External environment (-)	External driver (-)

4.3 Additional insights

Based on description provided in section 4.1, there are a few additional insights that can be provided concerning with stakeholder support (4.3.1), internal organization support (4.3.2), and internal driver (4.3.3). These additional insights are aimed to present additional perspectives and information about the IEPsA that was not covered in section 4.2 (analysis based on the model established in Chapter 3).

4.3.1 Insights on the stakeholder support

In Indosat, despite existence of plan for privatization but there was no restructurization in the IEPsA.

Government's plan to privatize Indosat influenced negatively to the degree of internal relationship since due to the plan a number of managers and employees opposed the intention to alliance which they considered unnecessary for a profitable SOE such as Indosat.

Motivation of budget deficit reduction in this privatization was supported from the fact that government urged to establish the IEPsA in the mid of December 2002 (on Sunday) or when the end of year was approaching. Altogether with both the occurrence of unprecedented moment of Bali Bombing in October 2002 and affected share price in the bourse which furthermore had influenced negatively to the share price of Indosat in the SPA.

All in all, both low degree of internal relationship and low share price influenced the transparency of the privatization process which afterwards influenced to the absence of the stakeholder support on the IEPSA.

Figure 4.5: Stakeholder support – adjusted

4.3.2 Insights on the internal organization support

Both prospective partners had guaranteed on employment. But, new owners actually rationalize managers and employees who opposed the IEPSA. They were offered with the retirement program to leave the alliance. As such, this situation created negative impact to the alliance since rationalization was actually happened in the IEPSA. So that, despite occurrence of fit in objective between partners, the issue of rationalization had influenced negatively to the participation of

management and employees in the implementation of strategic plan. Subsequently, the situation affected negatively to the existence of internal support.

Figure 4.6: Internal support - adjusted

4.3.3 Insights on the internal driver

The termination was derived by the IEPSA's failure to meet synergy such as transferring know-how, technology, and fund. It was indicated by the reduced market share which related with inability to achieve its strategic objectives and expectancy in the IEPSA. This situation influenced to the internal driver of the IEPSA termination.

Figure 4.7: Internal driver - adjusted

4.4 Conclusions

In this chapter the Indosat case was described and the model from chapter three was applied to measure the factors that played a role for the IEPSA.

First research question: what were the phases in the IEPSA?

The four identified phases in the literature, i.e. planning phase (4 months), formation phase (3 months), operation phase (62 months), and termination phase (1 month), could all be identified for the Indosat case. Thus, the phases followed the model.

Second research question: what were the factors in the IEPSA?

During the planning phase, the IEPSA faced challenging conditions, i.e. stakeholder support was negative, and cultural understanding was neutral while the strategic match was positive. Thus, from an analytical perspective the IEPSA could be considered attractive but from a political perspective it was lacking support. The lack of stakeholder support was quite problematic caused by a lack of communication of both partners to the stakeholder regarding the future objective of the alliance.

During the formation phase, the situation improved slightly. Internal organization support and cultural understanding were neutral whereas the strategic planning was positive. Thus, similar to the first phase, from an analytical perspective the IEPSA was desirable but from a political perspective there were some challenges. Nevertheless, support for the IEPSA was improving.

During the operation phase, the IEPSA's situation became quite positive. All of the factors were positive indicating that from both an analytical as well as a political perspective, the IEPSA was doing well. The situation was much improved by the enhanced cultural understanding and communication. There was more frequent sharing of communication. At least once a month both partners appeared in public to motivate and share its commitment to the organization.

It is quite possible that the improvement of the IEPSA was simply something that needed time. The first two phases of the IEPSA took from September 2002 until March 2003, i.e. less than one year. It may be that it takes time, e.g. a year, to gain sufficient support from stakeholders and internally in the organization.

With positive factors in the operation phase, it might have come a little as a surprise that the IEPSA was terminated. However, the reason for the IEPSA's demise wasn't the performance of it but was caused by legal issues.

Third research question: what were the relationships between factors?

Several relationships between the factors in the model were observed:

- Stakeholder support influence on cultural understanding. In the initial phases, partners seldom communicated with the stakeholder since issues about downsizing, share price, and transparency were important to them. Although both partners were committed to the alliance, their lack of communication had a negative influence on creating trust, i.e. on the cultural understanding.

- Cultural understanding influence on internal organization support. When the strategy was implemented, management split into two groups, those who opposed the alliance and those who supported the alliance. People who were thought to have opposed the alliance initiation were exiled and unlisted in the implementation of strategic planning. The overall result was neutral internal organization support.
- Internal organization support influence on strategic planning. Those who participated in the implementation of strategy were committed to increasing the number of BTS up to 1,000 per year, and to improve the financial performance by utilizing all people in organization and preventing rationalization stated in the strategic planning. This aided the internal organization support which in turn brought positive influence on the strategic planning factor of the alliance.
- Human resource management influence on management control system. By being committed to the objective setting, Indosat created collaborative people. Moreover, the alliance had identified new corporate values that covered integrity, cooperation, excellence, partnership, and focus on customers. According to the vice president of strategic planning, human resource management through collaborative people had contributed to the successfulness of planning and the control structure performance in the management control system factor.
- Organizational arrangement influence on management control system. The organizational arrangement, especially the decentralization of decision making and the merging of its subsidiaries (IM3 and Satelindo) into Indosat contributed to the successfulness of the planning and control structure in the management control system factor. By merging, Indosat had brought together three different organizations with different cultures and policies, which provided more efficiency for Indosat in terms of providing service to customers and at the same time controlling the entities.
- Management control system influence on evolved cultural understanding. The effective management control system was characterized by a shared vision and mission, synergy among all layers within organization, and alignment of interests of employees with the ones of shareholders. This enabled the alliance to achieve superior performance. According to the vice president of Indosat, this superior performance enhanced the commitment between the partners and thus it increased the evolving cultural understanding between partners.

Summary of factors relationship based on the case is presented in table 4.27.

Table 4.27: Relationship of factors based on the Indosat case

No.	Influencing factor	Influenced factor
1.	Stakeholder support	Cultural understanding
2.	Cultural understanding	Internal organization support

No.	Influencing factor	Influenced factor
3.	Internal organization support	Strategic Planning
4.	Human resource management	Management control system
5.	Organizational arrangement	Management control system
6.	Management control system	Evolved cultural understanding

Additional insights:

A few additional insights gathered concerning with stakeholder support, internal support, and internal driver were revealed:

- Government's plan to privatize Indosat influenced negatively to the degree of internal relationship since a number of managers and employees opposed the intended alliance. Motivation of budget deficit reduction in this privatization was supported from the fact that government urged to establish the IEPSA in the mid of December 2002 (on Sunday) or when the end of year was approaching. Altogether, both the occurrence of unprecedented moment of Bali Bombing in October 2002 and affected share price in the bourse had influenced negatively to the share price of Indosat in the SPA.

All in all, both low degree of internal relationship and low share price influenced the transparency of the privatization process which afterwards influenced to the absence of the stakeholder support on the IEPSA.

- Both prospective partners had guaranteed on employment. But, new owners actually rationalized managers and employees who opposed the IEPSA. They were offered with the retirement program to leave the alliance. As such, this situation created negative impact to the alliance since rationalization was actually happened in the IEPSA. So that, despite occurrence of fit in objective between partners, the issue of rationalization had influenced negatively to the participation of management and employees in the implementation of strategic plan. Subsequently, the situation affected negatively to the existence of internal support.
- The termination was derived by the IEPSA's failure to meet synergy such as transferring know-how, technology, and fund. It was indicated by the reduced market share which related with inability to achieve its strategic objectives and expectancy in the IEPSA. This situation influenced to the internal driver of the IEPSA termination.

CHAPTER 5: CASE STUDY OF SEMEN GRESIK

In this chapter, the case study of Semen Gresik is presented. Section 5.1 describes the chronology of the case while section 5.2 presents the analysis of the case study based on the framework and model gathered in chapter 3 with the factors of each of the life cycle phases in the sub-sections. Section 5.3 provides insights gathered from section 5.1. Finally in section 5.4 the answers to the three research questions are provided.

5.1 Description of Semen Gresik

Semen Gresik was an Indonesian State-Owned Enterprise cement company established in 1957. It owned two subsidiaries, Semen Padang and Semen Tonasa, which were merged into Semen Gresik in 1995. The group's annual production capacity was 18.2 million metric tons of cement, as compared to the country's total output of 45 million tons. On July 8, 1991 Semen Gresik listed on Jakarta and Surabaya Stock Exchange. It was the first state enterprise going public by selling 40 million shares to the public.

The IEPSEA at Semen Gresik was conducted as a result of a Letter of intent (LoI) between the government of Indonesia and IMF. One of the clauses in the LoI was that the government was required to accelerate privatization and take decisive action to restructure or close poor-performing enterprises. This included Semen Gresik. The privatization process contained several steps. First a description of the cement industry before the intended IEPSEA is provided in section 5.1.1. The IEPSEA initiation, which lasted until a SPA was reached, will be described in 5.1.2. The Semen Gresik IEPSEA was initiated in May 1998 and lasted until August 1998. The partners formulated a strategic plan until December 1998 (5.1.3) and implemented this strategy (5.1.4) until the IEPSEA was terminated in July 2006 (5.1.5).

5.1.1 Cement industry before the intended IEPSEA

In mid-1997, economic situation in Southeast Asia was in a state of crisis. It began with the decline of Thailand's currency against the U.S. Dollar and followed by a decline in other currencies in Asia. In Indonesia, the Rupiah against the U.S. Dollar depreciated sharply from about Rp 2,500 per U.S. Dollar, reaching Rp 17,000 per U.S. Dollar and after that it fluctuated sharply during the year.

According to the IMF, the prolonged economic crisis in Indonesia was due to procrastination of the government in requesting IMF help after the Rupiah had been significantly depreciated (Tarmidi, 1999). The main idea of the IMF recovery strategy was to restore confidence in the currency by making it more attractive (Tarmidi, 1999).

The first IMF assistance program was signed on October 31, 1997. The recommended programs for economic reforms covered restructuring of four areas: the financial sector, fiscal policy, monetary policy, and structural adjustment. The strategies of implementation were aimed at stabilizing the Rupiah at a level appropriate to the economic power of Indonesia, strengthening and accelerating the restructuring of the banking system, strengthening the implementation of structural reforms to build an efficient and competitive economy, develop a framework to address the debt problems of private enterprise, and returning trade spending to normal circumstances so that exports would bounce back. Seven additional appendices were related to the monetary policy and interest rates, banking sector development, government budgetary support for the weak, SOE reform and privatization, structural reform, private debt restructuring bankruptcy law and judicial reform.

In line with the memorandum, Semen Gresik, a Gresik-based cement company was one of the targets for SOE reformation and privatization.

During the economic crisis, demand of cement in Indonesia fell to 45% of the installed capacity. Dominant players in the industry were Semen Gresik and Indocement Tunggal Perkasa. The market shares of the companies in the cement industry in Indonesia are presented in table 5.1 (Silalahi, 1998).

Table 5.1: Market share of cement industry (Silalahi, 1998)

No.	Company	Market share
1.	Semen Gresik	43%
2.	Indocement Tunggal Perkasa	34%
3.	Semen Cibinong	13.6%
4.	Semen Andalas Indonesia	4.3%
5.	Semen Baturaja	2.6%
6.	Semen Basowa Maros	1.9%
7.	Semen Kupang	0.6%

Demand was highest in the housing segment which represented 68% of the customers. Besides that, this segment also had the highest growth. In contrast, construction was the most declining segment as a direct result of the economic crisis. Table 5.2 provides an overview of cement consumption per segment.

Table 5.2: Cement consumption per segment 1997 – 1998 (Silalahi, 1998)

Cement Users	1997		1998	
	000 Ton	%	000 Ton	%
Housing	14,877	54.2	12,978	68,0
Construct.	4,748	17.3	410	2,1
Others	4,446	16.2	4,638	24,3
Ready Mix	3,376	12.3	1,094	5,5
Total	27,447	100	19,075	100

5.1.2 The IEP SA initiation: May to August 1998

The reason for the IEP SA was a Letter of Intent between the Government of Indonesia and the IMF that Semen Gresik was one of the SOEs to be planned for privatization. The objective was to help the Government of Indonesia relieve from the economic crisis through one of the means the privatization of SOEs.

Bidding process

The privatization process was initiated on May 5, 1998 when the Ministry of State-Owned Enterprises invited three of the world's largest cement manufacturers: Holderbank (Switzerland), Heidelberger (Germany), and Cemex (Mexico) to bid. At that time, the ministry offered a 35% share in Semen Gresik of which it held 65.01% and the public held the remaining 34.99%.

Table 5.3: Invited investors of Semen Gresik's IEP SA

No	Investor	Country
1.	Holderbank	Switzerland
2.	Heidelberger	Germany
3.	Cemex	Mexico

One week after the announcement, Heidelberger withdrew thus leaving only Cemex and Holderbank to pursue the allotted two-week period of due diligence.

Four evaluation criteria were established consisting of pricing, financial, social, and environmental.

Table 5.4: The evaluation team and its task on the first stage of bidding

No.	Team	Task
1.	Pricing	Evaluating the offered price
2.	Financial	Assessing the financial capability
3.	Social	Evaluating the term about employment guarantees
4.	Environment	Evaluating the term about stakeholder relations

The former president of Indonesia, Soeharto, stepped down on May 21, 1998 and afterwards crowned Habibie as the new president. This situation ignited political instability in Indonesia where

people had inclination to have freedom of expression which was considered constrained during the era of Soeharto.

On June 19, both Cemex and Holderbank filed their bids for the 207.6 million shares. Although price was not the only criteria, there was quite a difference in the bids. The Cemex bid was much higher (US\$ 1.38/share or US\$ 287 million) than the bidding price of Holderbank which was US\$ 0.96/share or US\$ 200 million. Cemex became the winner at this stage and therefore was eligible to enter into a provisional sales agreement with the government. However, Holderbank was allowed to submit bids in a second stage to improve upon the Cemex's offer. Cemex was then given the right to match the better offer in order to win the bid. In the second stage, Holderbank refused to submit a bid. Therefore, Cemex was automatically announced as the winner.

At this time there were protests of stakeholders who feared the downsizing of employees as a potential result of the privatization. The protests were held in Gresik, Padang, Tonasa, and there were also events in Jakarta in front of the office of the Ministry of SOEs. The protest affected the government's intention to sell a 35% share in the SOE. In an announcement on August 20, Cemex was informed by the Indonesian government that its first-round bid would have to be changed. The main change was that a maximum of 14% of shares would be sold by the government to Cemex at this time. Cemex agreed with this provided that the government would additionally allow that roughly 11.53% of public shares would be purchased by Cemex. Furthermore, that within three years the government would sell another 25.47% shares to Cemex so that Cemex would become the majority owner with 51% of the shares. Absence of assurance of the bidding offered disappointed Cemex and afterwards influenced negatively to the share of communication between partners and nurture of the alliance.

Table 5.5: The scheme plan of Semen Gresik ownership

Owner	Share before IEP SA	Initial plan	Revised plan first 3 years	Revised plan after 3 years
Government	65.01	30.01	51.01	25.54
Public	34.99	34.99	23.46	23.46
Cemex	-	35.00	25.53	51.00
Total	100.00	100.00	100.00	100.00

The content of the SPA consisted of commitment of Cemex in terms of:

1. Enhancing the performance of Semen Gresik
2. Participating to improve cement industry
3. Not laying off the employees,

It also composed of commitment of the government to exercise its put option to selling 25.47% shares within three years.

Four directors of Cemex were placed on the board of directors. The ownership structure of the alliance is presented in figure 5.1.

Figure 5.1: Shares and ownership of Semen Gresik after IEPSA

Semen Gresik is a group of cement manufacturers consists of Semen Gresik headquarter, two subsidiaries; Semen Padang and Semen Tonasa, and separated cement plants in Gresik, Padang, and Tonasa as presented in figure 5.1. Semen Padang was incorporated in 1910 under the name NV Maatschappij Nederlandsch Indische Portland Cement (NV NIPCM) which was the first cement plant in Indonesia. It is located in Padang, West Sumatera. In 1958, the company was nationalized by the government of the Republic of Indonesia from the Dutch government. During this period, the company experienced a renaissance through a rehabilitation process and the development of the plant's capacity. Furthermore the company transformed its technology development capacity from a wet to dry process and the plants Indarung II, III, and IV were built.

Semen Tonasa was incorporated in 1968. It is located at Biringere, Pangkep, South Celebes. The company is a strategic cement producer to supply cement in the East Indonesian region. The company produced Portland Cement type I, II, V, Masonry Cement, and Fly Ash Cement. The market covered mainly Celebes, as well as Kalimantan, Nusa Tenggara, Bali, and other East Indonesian regions. The company also exported to several countries particularly Asia, Africa, Europe and Australia. To support its market, the company operated packing plants in its market region, namely: Ujung Pandang, Bitung, Samarinda, Banjarmasin, Bali, Ambon and Palu.

In 1995, the government transferred its shares in Semen Padang and Semen Tonasa to Semen Gresik so that they became the subsidiaries of Semen Gresik.

The alliance partners

Semen Gresik was a profitable SOE in Indonesia. Semen Gresik's profit in 1996 was Rp 217 billion and in 1997 it was Rp 185 billion. It was one of a few SOEs such as Telkom and Indosat which was profitable during the economic crisis. However, this profit was not attractive compared to the assets worth of Rp 4.8 trillion. In other words, although it was profitable it was considered as poor in performance.

Semen Gresik sold several products:

1. Portland Cement Type I. Also known as Ordinary Portland Cement (OPC), a hydraulic cement widely used for general construction, such as building construction that requires no special requirements, such as: building, residential, high-rise buildings, bridges, runways and roads
2. Portland Cement Type II. Also known as the cement that has resistance to sulphate and heat of hydration medium. For example, it is used for building on the seafront, marshland, docks, irrigation channels, and mass concrete dam.
3. Portland Cement Type III. All types of cement developed to meet the needs of the building that require high initial compressive strength after casting process done and requires completion as quickly as possible. For example, is used for building roads, properties, and high rise of the airport.
4. Portland Cement Type V. This type of cement used for construction of buildings on land/water containing high sulfate and is perfect for batching plant, construction of the water, bridges, tunnels, ports and nuclear power plants.
5. Special Blended Cement (SBC). Cement specially created for the construction of mega projects and was suitable for buildings in the sea water.
6. Portland Pozzolan Cement (PPC). Hydraulic cement is made by grinding the slag, gypsum and pozzolan material. Used for public buildings and buildings required sulfate resistance and moderate heat of hydration. For example, bridges, highways, housing, docks, mass concrete, dams, irrigation and the foundation platefull.

Semen Gresik's marketing and distribution covered the Indonesia areas of Java, Sumatra, and Sulawesi. It had strategically located plants in Sumatra, Java and Sulawesi supported by thousands of distributors, sub-distributors and shops. This enabled Semen Gresik to supply the needs of cement across the country. In addition to domestic sales, Semen Gresik also exported its products to several countries including Singapore, Malaysia, Korea, Vietnam, Taiwan, Hong Kong, Cambodia, Bangladesh, Yemen, Norfolk USA, Australia, Canary Island, Mauritius, Nigeria, Mozambique, Gambia, Benin and Madagascar. The production capacity of the group of Semen Gresik ranges from Semen Gresik's Plant, Semen Padang's Plant, and Semen Tonasa's Plant is as the following.

1. Semen Gresik. Semen Gresik had four manufacturing plants with an installed capacity of 8.5 million tons of cement per year, located in Tuban, East Java. The city of Gresik has two ports, namely: a special port Semen Gresik in Tuban and a port in Gresik. The Semen Gresik plant is in the village of Tuban Sumber Arum, Kerek district.
2. Semen Padang. Semen Padang had four cement plants with installed capacity of 6.2 million tons of cement per year located in Indarung, West Sumatra. Cement field has 5 packing cements, namely: Teluk Bayur, Belawan, Batam, Tanjung Priok, and Ciwandan.
3. Semen Tonasa. Semen Tonasa has three cement plants, installed capacity of 3.48 million tons of cement per year, located in Pangkep, South Sulawesi. Semen Tonasa has seven packing cement, namely: Biringkasi, Makassar, Samarinda, Banjarmasin, Bitung, Palu, Ambon, Celukan Bawang, Bali.

Cemex was founded with the opening of Cementos Hidalgo, in 1906. Cementos Portland Monterrey began operations in 1920, and in 1931, the two companies merged, becoming Cementos Mexicanos, now Cemex. In the 1960s, Cemex grew significantly when it acquired several more plants throughout Mexico. In 1976, the company went public on the Mexican stock exchange, and that same year, became the largest cement producer in Mexico with the purchase of three plants from Cementos Guadalajara. In 1982, the company made significant progress in overseas markets, doubling its exports. Further acquisitions of Mexican cement companies were made in 1987 and 1989, making Cemex one of the ten largest cement companies in the world. In 1998 Cemex was the world's third largest building materials suppliers and cement producers with approximately 65 million tons of capacity. Cemex had operations extending throughout the world, with production facilities spanning in North America, the Caribbean, South America, Europe, Asia, and Africa. Cemex operated cement plants in 15 countries, owned production or distribution facilities in a total of 30, and traded cement in more than 60. Cemex had the highest amount of profits and cash flow in the cement industry (Ghemawat, 2004) as presented in table 5.6.

Table 5.6: Data on global cement companies in 1998 (Ghemawat, 2004)

No.	Company	Holderbank	Lafarge	Cemex	Heidelberg	Italcementi	Blue Circle
1.	Sales (US\$ m)	7,618	10,552	4,828	6,404	3,414	3,604
2.	Profit (US\$ m)	1,066	1,766	1,436	645	511	466
3.	Cash Flow (US\$ m)	144	511	862	487	200	(294)
4.	Capacity (m tons)	140	107	85	71	55	45
5.	Number of countries	53	38	15	33	14	14

Cemex provided IT based customer-focused solutions within the value chain of Cemex connecting the supplier, operation, marketing and sales with the customer which had grown to more than 2,100 points of sales across Mexico. This provided distributors and customers with convenient access to information of products and services. Furthermore, Cemex offered a wide array of construction products and services which were complementary to cement. Cemex's global market and customer distribution ranged from America, Asia, and Africa.

Technology

Semen Gresik had technology to produce good standard products, namely: OPC, PPC, and white cement. Semen Gresik was the largest cement company in Indonesia. Because its existing capacity used the latest technology it was regarded as the most efficient. Approximately 30% of Semen Gresik's capacity was installed between 1996 and 1997.

The high quality and performance concrete cement products of Cemex were supported by its standardization of system through proprietary information technology which leveraged the collective knowledge of the people and raised the standard of customer satisfaction and employee productivity. But, Cemex also established system to be able to adapt to the local market needs through maximizing the operating efficiency and agility, pioneering superior customer service, logistics, and fulfillment practices, realizing cost efficiencies, and streamlining the internal processes.

Capital need

At the time of alliance initiation, the production of cement in Indonesia was only 45% of the installed capacity of 42 million tons. However, the partners were confident that as the economy recovered, an increase of its installed capacity would be necessary to anticipate the increasing demand. The capital needed to increase the production capacity was expected by the government to come from the foreign partner. One of the benefits for Semen Gresik of forming the IEPSA was that it would be able to obtain low cost financing from Cemex with the rate of Ba3 according to Moody's. Through market penetration the alliance would provide dividend for Cemex. Sharing resources with Cemex was expected to improve efficiency and profitability at Semen Gresik. Also, the alliance planned to increase its production capacity to gain more revenue from the Indonesian market.

Strategies

Semen Gresik was following a growth strategy while improving its operational efficiency. This was in anticipation of the impact of economic crises. Cemex's corporate strategy was a growth strategy with a focus on value and cash flow creation. Cemex's strategy was to grow through acquisition. The mission was "delivering good results in bad times". Cemex's growth strategy was implemented through international strategic alliances so that the company was able to be one of the five biggest cement producers in the world. South-East Asia was the only potential market where Cemex had not yet acquired another company. Expanding into Asia was therefore in line with Cemex's overall growth strategy. Another, financial, reason was given by Cemex's CEO Lorenzo Zambarano, "Before the crisis, cement companies in Asia were worth about US\$ 500 per ton of capacity. But now, after the crisis, the value of cement firms in Asia dropped to only US\$ 100 per ton of capacity" (Crawford, 1997). Fit in objective occurred between the two partners, Semen Gresik was an important strategic partner for Cemex to invest in and as a means to gain entry to the South East Asian region.

The economic environment and share price

Asia's economic crisis 1997-1998 affected Indonesia more than any other countries. It was the time when the previous president Soeharto resigned after 32 years of presidency. It was also the time called as reformation, when the democracy era began and people had more freedom to express their opinions. Like its neighbors, Indonesia saw sharp currency depreciation, equity and asset markets collapsing, corporate bankruptcies, bank failures, and a massive increase in public debt. The Indonesian economy deteriorated. For example, the gross domestic product (GDP) grew by 7.82% in 1996, then reduced to growth of 4.7% in 1997 and it declined by 13% in 1998 (Bank of Indonesia, 1998). The inflation rate was 8.01% in 1996, 6.22% in 1997, and soared to 57.6% in 1998. In terms of currency rate, this fluctuated; from Rp 2,345 per US\$ in 1996, Rp 3,625 in 1997, to Rp 8,025 in 1998.

As presented in table 5.7, the share price of Semen Gresik went from Rp 5,125 in July 1997, to Rp 2,575 in November 1997. This was the time when government's floating of Rupiah against the U.S. Dollar was futile and finally sought for IMF's assistantship to revitalize the economy. The share price then went back up to Rp 11,450 in July 1998.

Table 5.7: Share price of Semen Gresik from June 1997 to July 1998

No.	Price	Month	Situation
1.	Rp 5,125	July 1997	Start of economic crisis
2.	Rp 3,000	August 1997	Government anticipated the depreciation of its currency

No.	Price	Month	Situation
3.	Rp 3,200	September 1997	by floating Rupiah against U.S. Dollar
4.	Rp 3,500	October 1997	
5.	Rp 2,575	November 1997	Since the economic conditions deteriorated, the government sent a letter requesting IMF assistantship
6.	Rp 3,225	December 1997	The government and IMF agreed upon a package of loans to revitalize the economy
7.	Rp 4,300	January 1998	Letter of Intent between IMF and the government over the package of loans
8.	Rp 5,475	February 1998	The government began to restructure the economy
9.	Rp 6,400	March 1998	
10.	Rp 5,400	April 1998	
11.	Rp 6,050	May 1998	The government sent invitation letters to prominent cement producers for the partial divestment of Semen Gresik
12.	Rp 8,400	June 1998	The offering bids were submitted to the divestment team
13.	Rp 11,450	July 1998	Cemex became the winner
14.	Rp 7,575	August 1998	The foreign partner's proportion of ownership was changed from 35% to 14%

The selling price of the government's shares for as much as US\$ 1.38 was considered as premium compared with the market price of Semen Gresik shares of US\$ 0.80 with the rate of Rp 14,500 per US\$¹⁰. The fair or fundamental value of Semen Gresik shows that the share price should have been US\$ 1.16 with the rate of Rp 14,500 or equal to US\$ 1.87 based on the stabilized rate during the year which was Rp 9,000 per US\$. The stabilized rate is the condition when the rate was less fluctuated (between Rp 8,500 to 9,000¹¹ occurred in the last quarter of the year) than the fluctuation in the first three quarters of the year (between Rp 6,500 to Rp 14,500).

Table 5.8: Comparison value of equity per share

Item	1 US \$ = Rp 14,500
SG stock price per share	Rp 11,450 or \$ 0.80
Fair Value per share Based on FCF valuation	Rp 16,862 or \$ 1.16
Cemex purchased SG share	\$ 1.38
Cemex offered price per share premium over fair value based on 1 US\$ = Rp 14,500	\$ 0.22 (\$1.38 - \$1.16)
Cemex offered price per share premium over stock price	\$ 0.53 (\$1.38 - \$0.80)
Benefits of Cemex per share SG because of IDR depreciation over US \$	\$ 0.49 (\$1.87 - \$1.38)

¹⁰ Or equal to US\$ 0.45 with the rate of Rp 6,500. The rate difference reflects the volatility of the currency within the year between Rp 6,500 to Rp 14,500 per US\$.

¹¹ It used Rp 9,000 as the stabilized rate since it was the most depreciated Rupiah against US\$ during the least fluctuated Rupiah in the last quarter of the year.

Cemex spent US\$ 220 million to acquire 25.53% shares in Semen Gresik with 18.2 million tons of capacity. This is equal to US\$ 47 per ton capacity. This is much cheaper than the US\$ 100 per ton capacity which is the standard normal value of a cement manufacturer (Crawford, 1997). This situation was due to the unfavorable economic situation in Indonesia reflected in the low share price of the companies in the bourse (including Semen Gresik) and coupled with the government's intention to reduce budget deficit by privatizing Semen Gresik through IEPSA.

Problem with transparency during initiation

In May 1998, a number of prominent bankers were quoted in the press as questioning both the transparency of the IEPSA process and the ethics of the process. At the center of the controversy was the situation that the investment banking firm-Goldman Sachs represented both the potential buyer (Cemex) and the seller (Government of Indonesia). The controversy reached its zenith when Goldman Sachs resigned as Cemex's advisor due to the mounting the pressure from the society on the issue of transparency. Later on, the advisers were changed so that Cemex had Jardine Flemming and the government of Indonesia had Bahana Sekuritas and Danareksa Sekuritas as the advisers. According to the assistant of the Minister of State Enterprises, "We didn't think there was anything illegal in what Goldman Sachs was doing. The bank simply wanted to avoid further public debate over its role".

Another transparency issue happened on June 22, after the first round of bidding ended, I Putu Gede Ary Suta (Ary Suta), chief of Indonesia Capital Market Supervisory Agency (Bapepam), announced that a probe into suspected insider trading in Gresik shares was about to be initiated. The reason for this was that from June 3 until June 17, the price of Gresik shares had risen 57%, while many other Indonesian stocks were declining in value. On June 19, the day the secret bids were submitted, Gresik shares closed above Rp 8,700. Over 62 million shares had been traded, the highest volume so far that year. Ary Suta stated that if insider trading had occurred then "it would be the biggest scandal in the history of the stock market". Six local brokers were named as initial suspects. Among them were the three governmental advising firms involved in the Gresik sale. These were Jardine Fleming Nusantara and the two state-controlled houses Danareksa Securities and Bahana Securities. Because Soeharto was no longer president of Indonesia, it seemed that this might actually lead to punishment. Bapepam investigated more than 100 parties, and stated that it did not find any culpable insiders. Eventually, despite the allegation of insider trading, Bapepam and the ministry were not able to prove it. No one from the ministry or among its advisers was fired, and the Gresik sale continued to the second round. It was public knowledge that Gresik was for sale and that the winner would buy additional shares on the open market to boost the 14% stake available from the state to a 25.53% of ownership. Nevertheless, this issue remained a controversy in the divestment of Semen

Gresik. This situation led to the low degree of internal relationship which was indicated by on street protests and strikes by employees, managers, and labor union to the intended IEPsA raising the transparency issues.

5.1.3 Setting up the IEPsA: September to December 1998

The strategy was initiated by the board of directors of Semen Gresik (see table 5.9) which consisted of four directors from Indonesia and two directors from Mexico.

Table 5.9: Board of Directors of Semen Gresik

No	Name	Position	Nationality
1.	Satriyo	President Director	Indonesia
2.	Francisco Noriega	Vice President Director	Mexico
3.	Cholil Hasan	Director of Finance	Indonesia
4.	Endah Dwi Astuti	Director of Research and Development	Indonesia
5.	Hasan Baraja	Director of Marketing	Indonesia
6.	D. Armando Martinez Gallegos	Director of Production	Mexico

The new vision and mission were developed by the President Director assisted by the Vice President Director and it was discussed with other Directors. The Directors of Production and Marketing initiated the strategic plan. Subsequently, the complete documents of strategic planning were prepared by both partners. The functional strategies along with the assigned activities were developed based on discussions among directors. These functional strategies were aligned with the corporate and the competitive strategies as well as with the vision and mission of Semen Gresik. The developed strategies and activities were reported to, and discussed with, the Board of Commissioners. It consisted of three Indonesians and two Mexicans as in table 5.10.

Table 5.10: Board of Commissioners of Semen Gresik

No.	Name	Position	Representation	Nationality
1.	Zaenal Arifin	President Commissioner	Government	Indonesia
2.	Jose Luis Saenz de Miera Alonso	Vice President Commissioner	Cemex	Mexico
3.	Tjuk Kasturi Sukiadi	Commissioner	Government	Indonesia
4.	Gofar Suwarno	Commissioner	Government	Indonesia
5.	Ignacio Ortiz	Commissioner	Cemex	Mexico

The overall strategy contained long-term strategy, business plan, functional strategies, and benefits for the nation.

Table 5.11: Strategy components of Semen Gresik in 1998

No.	Strategy components	Description
1.	Vision	<ul style="list-style-type: none"> • To create a harmonious relationship between the company and the community • To develop small-scale business establishments and cooperativeness in order to have good resistance, independence and competitive advantages as well as to create more employment opportunities through professional management
2.	Mission	<ul style="list-style-type: none"> • To maintain sustainability of living environment and help to improve the quality of community life including education, health and welfare • To create development patterns for small medium scale business establishments and cooperatives, whether or not their business lines are related to Semen Gresik through financing and continuous fostering programs by prioritizing the aspects of distribution, independency, professionalism, and ethics
3.	Corporate Strategy	Growth strategy while improving operational efficiency
4.	Competitive strategy	Provide premium products and services to customers efficiently with the support of its large installed capacity and widespread distribution channel
5.	Functional Strategy	<ul style="list-style-type: none"> • Improve the quality of products and services through transfer of technology • Increase the installed capacity to anticipate increasing demands in the future • Increase market share by penetrating the existing market by knowing the customer wants and needs
6.	Activities	<ul style="list-style-type: none"> • Transfer of technology from Cemex to Semen Gresik to produce and enhance the quality of products and services • Improve efficiency and gain market share by increasing installed capacity • Conduct market research to penetrate the existing market blended with the support of technology from Cemex • Enhance the relationship and trust of distribution channel by sharing vision, objective, and information between the producer, wholesale, and retailer

Despite fit in objective between the two partners, there was a lack of commitment to maintaining employment or not downsizing the employees on the side of Cemex. The director of Cemex viewed that the economic crisis negatively affected the business. Therefore, no guarantee on employment could be made that the same level of employment would be maintained. This had made most employees nervous. Furthermore, management, employees, and society had a mindset that Semen Gresik was one of the best SOEs because it was profitable. Thus, they felt that it was unnecessary for the government to divest its shares to the foreign investors. These conditions induced labor union to oppose the alliance by having frequent strikes. As such, despite fit in objective but due to the non-existence guarantee on employment, employees and the head of labor union, most of the management and employees did not commit to participate in the implementation of the strategic plan.

5.1.4 Running the IEPSA: January 1999 to June 2006

Human resources

Semen Gresik was committed to enhance the employees' capabilities and to provide opportunities for learning. The human resource department had set up a standard of competence for every working position to ensure the achievement of superior performance. Each employee's capability was determined by an assessment team and compared with the standard of competence. Any gap between the standard of competence and the employee's capability resulted in training programs oriented on reducing employee weaknesses. Out of approximately 2,000 employees, 30 employees were sent to domestic or international universities to pursue a master degree. The scope of competence assessment included management and technical skills. For managerial aspects, the team collaborated with the University of Indonesia. For technical skills the team collaborated with the University of Gadjah Mada.

According to the head of labor union the working climate inside the company was conducive for local employees but not between local and foreign partners. First, the cultural value of Semen Gresik was mainly based on the Islamic religion¹². During religious events the representatives of Cemex often appeared in public to participate in the events and to show that they cared. Second, in terms of the board of directors meetings, the two Mexican directors who were representing Cemex seldom attended the meetings. They delegated the task to local people and were less aware about the details of the company operations. This led to concerns from the local partner about Cemex's commitment to transfer expertise as promised at the initiation of alliance.

Management of the alliance

There were no significant changes in the span of control in the organization. The Cemex representatives delegated its decision making to domestic directors and staffs.

However, there was a perception problem with commitment between the partners. Both partners wanted to grow the alliance but they wanted to achieve this in different ways. Cemex wanted to increase the ownership share and inject capital. The domestic partner wanted to grow while maintaining the same ownership share. The employees were committed to corporate objective setting. Semen Gresik had set up the Promises system (Production Management Information System) and Key Performance Indicator (KPI). This was shared with all of the departments through intranet. This communicated the objectives that should be achieved and it served to create synergy between departments.

¹²Gresik is a city that stands on the coast of East Java. In the past Gresik was a haven of Arab traders. It is one of the cities where Islam in Indonesia was originated. Islam was brought by a merchant named Siti Fatimah Binti Maimun. Gresik is also known as madrasah city, due to the predominantly Islamic boarding schools and the vast amount of mosques in the town. Also in Gresik, five out of nine of Wali Songo (Nine Messengers of God in Java) were buried.

One of the control structures in the alliance was the audit committee. This was developed by the board of commissioners. The purpose was to improve the quality of financial statements, create a climate of discipline and control, improve the effectiveness of internal and external audit functions, and to identify matters that required the attention of the Board of Commissioners.

Trust

During this time period, there were still problems with the trust environment between the foreign partner and the domestic partner. This was rooted from the unclear SPA. According to an interview with the director (former secretary general of labor union), “Our relationship between the Mexican and Indonesian people is quite alright, as long as they do not push to increase the shares into majority ownership”. In 2004, Mexican directors were dismissed from the board of directors meeting, because Cemex urged the government to increase Cemex’s share to become the majority owner and by building a new cement plant. Moreover, in terms of sharing communication, although the foreign partners seldom appeared in the organization, the communication was deemed better than in the beginning of the alliance. For example, during Islamic events in the region, a Cemex representative appeared in public and wore local ethnic custom. Despite the problems, the performance of the alliance improved and commitment between the two parties partially improved.

The implementation of strategic planning happened during the reformation era when people were free to express their opinion. The subsidiaries of Semen Gresik; Semen Padang and Semen Tonasa, took this opportunity to demand a spin-off from the group. The demand of spin-off was caused by ethnic differences among the three locations of Semen Gresik, i.e. Gresik, Padang and Tonasa. When the three cement companies were merged there was some reluctance at the Padang and Tonasa subsidiaries that Gresik became the location of the headquarters. However, at that time, under President Soeharto’s rule, people were afraid to publicly oppose this. The demand of the spin-off was triggered by the emergence of a more democratic era as well as by the selling of Semen Gresik to Cemex. In order to avoid a spin-off, the alliance encouraged rotation of its key employees within the group. For example the CEO of Semen Gresik had previously been the CEO of Semen Padang (subsidiary), the Finance Director of Semen Padang was previously the Head of Accounting at Semen Gresik, and one of the Directors of Semen Tonasa had previously held a staff position at Semen Gresik. This rotation system diminished the problem of a spin-off.

The government was supposed to exercise its put option, i.e. selling additional shares to Cemex, in late 2001 aimed at raising cash to help finance the 2001 state budget deficit. This brought protests from various groups including politicians and informal leaders in West Sumatra and South Celebes, respectively the home base of PT Semen Padang and PT Semen Tonasa. These protests forced the

government to delay the sale. In January 2002, thousands of employees of Semen Gresik held a massive strike in Gresik, Padang, and Tonasa to force the government to abandon its plans to sell an additional 25.47% stake in the company to Cemex. The strike involved almost all employees in both the production and administration divisions. Because of these actions, the government did not exercise its put option. Cemex remained with a 25.53% of ownership.

Performance of the alliance

Seven years after forming the alliance, the number of assets had grown by 52% to Rp 7.3 trillion. This was accompanied by increasing profits, ROE, and ROA, see table 5.12. However, with increasing overall demand in Indonesia and with unchanged production capacity, the market share went slightly down to 40% in 2005.

Table 5.12: Indicators and performances of Semen Gresik in 1998 and 2005

No.	Indicator	1998	2005
1.	Assets	Rp 4.8 trillion	Rp 7.3 trillion
2.	Market share	43%	40%
3.	Total Capacity	18.2 million tons	18.2 million tons
4.	Profit	Rp 185 billion	Rp 1.02 trillion
5.	ROE	8%	22.8%
6.	ROA	4%	14%

5.1.5 Closing of the IEPSA: July 2006

From the beginning of the alliance, the alliance was faced with protests and strikes. Labor union, politicians, and society considered that the IEPSA failed to meet synergy of both partners' resources and activities. They opposed the alliance in particular with regard to the government's intention to increasing Cemex's share to 51%. Eventually, the government did not exercise its put option. In turn, Cemex issued a violation of contract breach to the International Centre for Settlement of Investment Disputes (ICSID) in Washington D.C. in the United States. Cemex sued the government for failing to keep its promise to exercise its put option so that Cemex would have become the owner of a 51% stake in Semen Gresik.

Nevertheless, Cemex did not continue to sue Indonesian government through ICSID but opted to terminate its alliance in Semen Gresik. On July 27, 2006, Cemex announced that it had sold shares amounting to 24.9% of Semen Gresik to PT Rajawali Corporation¹³. This was a holding company backed up by Indonesian tycoon Peter Sondakh, via Blue Valley Holdings Pte. with a value of US\$ 337 million. PT Rajawali Corporation was founded in 1984. It is one of the largest conglomerates in

¹³ Thus the new structure became: Government 51.01%, PT Rajawali Corp. 24.9%, Public 23.46% and Cemex 0.63% of the shares.

Indonesia. Cemex contained 0.63% of the shares, for it aspired to return to Indonesia as soon as the condition ameliorates.

5.2 Analysis

In this section, the model from chapter three is applied to ‘evaluate’ the Semen Gresik IEPSA. The description provided in section 5.1 is similar to the phases identified in chapter three. It can therefore be concluded that the life cycle of the IEPSA is in accordance with the theory described in the previous chapter differentiated into a planning, formation, operation, and termination phase.

Table 5.13: Time and duration of each phase

No.	Phase	Time	Duration
1.	Planning	May to August 1998	4 months
2.	Formation	September to December 1998	4 months
3.	Operation	January 1999 to June 2006	90 months
4.	Termination	July 2006	1 month

This section provides an analysis of the presence/importance of the factors from the model, i.e. stakeholder support (5.2.1), strategic match (5.2.2), cultural understanding (5.2.3), internal organization support (5.2.4), strategic planning (5.2.5), human resource management (5.2.6), organizational arrangement (5.2.7), management control system (5.2.8), evolved cultural understanding (5.2.9), internal driver (5.2.10), and external driver (5.2.11).

5.2.1 Stakeholder support

Internal organization support: there was no prior company restructurization in Semen Gresik and the government did not have a plan for the privatization prior to the LoI with the IMF. Thus, internal organization support was negative.

Society support: there was a change in the ownership structure, i.e. the government gave up its minority stake. According to De Castro and Uhlenbruck (1997), in less developed countries majority government ownership is favored to show that ‘assets are not being given away to foreigners’. Society demands that the government maintains its majority stakes in the corporation (Ramamurti, 2000). Thus, giving up only a minority share had a positive influence. The share price had a negative influence, i.e. the price paid for shares was below the fair value and there was lack of transparency. Thus, society support was negative.

Based on this, it can be concluded that stakeholder support for the alliance during the planning phase of the IEPSA was negative. Lack of stakeholder support was also evidenced by the strikes and protests that took place. An overview is provided in table 5.14.

Table 5.14: Relationships for the stakeholder support factor

No.	Variable	Sub-Factor	Factor
1.	Company restructuring (-) Plan for privatization (-)	Internal organization support (-)	Stakeholder support (-)
2.	Change in ownership structure (+) Share price (-) Transparency of the privatization process (-)	Society support (-)	

5.2.2 Strategic match

Attractiveness of macro-economic conditions: In the last three years, GDP growth was below the inflation rates. The exchange rates of Rupiah to U.S. Dollar fluctuated by more than 300%. Thus, GDP growth and currency rate were negative.

Attractiveness of market: the market share of Semen Gresik was 43% and ranked first among the cement producers in Indonesia. In terms of growth of market, it declined below its installed capacity from 1997 to 1998 due to the decreasing demand as an effect of economic crisis. Based on this, market share and growth of market were positive and negative respectively.

Alliance track record: Semen Gresik had no previous experience with an equity placement strategic alliance, but Cemex had several successful previous alliances with multinational cement companies in America, Asia, and Africa. Thus, partner's experience and partner's successfulness were neutral and positive respectively.

Attractiveness of product or service: the quality of product and service were good and Semen Gresik used the latest technology and standard to maintain and improve its quality. Thus, the attractiveness of product or service was positive.

Attractiveness of technology: The existing capacity of Semen Gresik used the latest technology was regarded as the most efficient. Approximately 30% of Semen Gresik's capacity was installed between 1996 and 1997. Based on this, technology of product or service and information technology were positive.

Attractiveness of financial performance: the ROA was 7% less than WACC while growth of sales and demand declined. Thus, attractiveness of financial performance was negative.

Capacity: the combination of the six components discussed above leads to the conclusion that the capacity had a positive influence on the strategic match.

Complementarity related to the attractiveness of the market: As the economy was expected to recover, in the future it was predicted that there would be scarcity of cement due to large amount of demand. Upon this prospect, Cemex intended to adapt to the requirement of local needs. Combining the resources of both companies would allow market penetration of this growth market and the alliance would provide dividend for both partners. This was positive for complementarity.

Complementarity related to the strategy: although both partners were following a growth strategy, but the global strategy of Cemex which imposed on standardization could lead to neutral complementarity.

Complementarity related to the attractiveness of resources: Cemex had the latest standardized technology and information technology which maximized the operating efficiency and also intended to adapt to local requirement. Furthermore, Semen Gresik was able to obtain low cost financing from Cemex with the rate of Ba3 according to Moody's. It can be concluded that the complementarity of the attractiveness of resources was positive.

Complementarity: the combination of the three influencing variables discussed above leads to the conclusion that complementarity had a positive influence on the strategic match.

Pressure on continuity: the CEO of Cemex and the government of Indonesia were committed to continue the alliance despite having opposition from the stakeholders. Thus, pressure on continuity was positive according to Cemex and the government of Indonesia under the LoI with IMF.

Pressure of time on alliance: Both partners felt the pressure of time on alliance. Cemex felt the pressure to expand its capacity to South Asian Region via Indonesia and Semen Gresik felt the urgency to increase its operational efficiency. Thus, pressure of time of alliance was positive

Alternative to cooperation: both partners had other alternatives to forming IEPsA. Thus, the alternative to cooperation can be considered negative.

Strategic importance: the combination of the three influencing variables discussed above leads to the conclusion that strategic importance had a positive influence on the strategic match.

Based on this, it can be concluded that the strategic match of the two partners in the alliance during the planning phase of the IEPsA was positive. An overview is provided in table 5.15.

Table 5.15: Relationships for the strategic match factor

No.	Variable	Component	Sub-Factor	Factor
1.	GDP growth (-) Currency rate (-)	Attractiveness of Macroeconomic situation (-)	Capacity (+)	Strategic match (+)
2.	Market share (+) Growth of market (-)	Attractiveness of market (+/-)		
3.	Partner's experience (+/-) Partner's successfulness (+)	Alliance track record (+)		
4.	Quality of product or service (+) Innovativeness of product or service (+)	Attractiveness of product or service (+)		
5.	Technology of product or service (+) Information technology (+)	Attractiveness of technology (+)		

No.	Variable	Component	Sub-Factor	Factor
6.	Profitability (-) Growth of revenue (-)	Attractiveness of financial performance (-)		
7.	Complementarity related to the attractiveness of market (+) Complementarity related to the strategy (+/-) Complementarity related to the attractiveness of resources (+)		Complementarity (+)	
8.	Pressure on continuity (+) Pressure of time on alliance (+) Alternative to cooperation (-)		Strategic importance (+)	

5.2.3 Cultural understanding

Share of communication: The alliance seldom shared communication with the stakeholders so that issues of job security and transparency were not resolved. Thus, share of communication was negative.

Nurture of the alliance: In the case, Cemex was willing to nurture and care for the alliance by developing, supporting, and enhancing the performance but the domestic side was not committed. Thus, nurture of the alliance was neutral.

Based on one negative and one neutral influencing variable it can be concluded that the cultural understanding in the alliance during the planning phase of the IEPISA was negative. An overview is provided in table 5.16.

Table 5.16: Relationship for the cultural understanding factor

No.	Variable	Component	Factor
1.	Share of communication (-)	Trust (-)	Cultural understanding (-)
2.	Nurture the alliance (+/-)	Commitment (+/-)	

5.2.4 Internal organization support

Participation in the implementation of strategic planning: most of the management and employees did not commit to participate in the implementation of strategic planning in particular with them who were threatened by the existence of the alliance due to the lack of fit in the partners' objective and obscure guarantee of employment. Thus, the internal organization support was negative.

Table 5.17: Relationships for the internal organization support factor

Variable	Factor
Participation in the implementation of strategic planning (-)	Internal organization support (-)

5.2.5 Strategic plan

Commitment: in terms of strategic plan, there was a positive influence from the commitment of both partners who made the strategic plan. The alliance was committed to improve the quality of products and services through transfer of technology, increasing the installed capacity to anticipate increasing demands in the future, and by increasing the market share by penetrating the existing market through knowing the customers' wants and needs.

Table 5.18: Relationships for the strategic planning factor

Variable	Factor
Commitment (+)	Strategic plan (+)

5.2.6 Human resource management

Collaborative people: the alliance enhanced the existence of collaborative people in the organization by providing intensive training to the employees; this led to a positive influence on the human resource management in the alliance. Thus, human resource management was a positive factor during the operation phase.

Table 5.19: Relationships for the human resource management factor

Variable	Factor
Collaborative people (+)	Human resource management (+)

5.2.7 Organizational arrangement

Flattened organization: there was no change in terms of organizational layer. However, top management from the local people was considered having frequent direct contact with the employees. Thus, the flattened organization was neutral.

Decentralization of decision making: The decision making was decentralized to the subsidiaries of the IEPSA and the alliance empowered the divisions to perform decision making in the aim to achieve the objectives. Thus, the decentralization of decision making was positive.

Based on one neutral and one positive influencing variable it can be concluded that the organizational arrangement during the operation phase of the IEPSA was positive. An overview is provided in table 5.20.

Table 5.20: Relationships for the organizational arrangement factor

No.	Variable	Factor
1.	Flattened organization (+/-)	Organizational arrangement (+)
2.	Decentralization of decision making (+)	

5.2.8 Management control system

Planning: Each division committed to ensure that the alliance objectives could be achieved. Thus, the planning was positive.

Control structure: The audit committee conducted process feedback on performance by auditing on the divisional performances within the alliance. The findings of these audits were reported to the board of directors. Thus, control process was positive.

Control process: The control process was not only based on the divisional performance but it cascaded down to the individual level. This process aligned the corporate objectives of the alliance with the organizational objectives. Thus, the control process was positive.

Based on three positive variables it can be concluded that the management control system during the operating phase of the IEPSA was positive. An overview is provided in table 5.21.

Table 5.21: Relationships for the management control system factor

No.	Variable	Factor
1.	Planning (+)	Management control system (+)
2.	Control structure (+)	
3.	Control process (+)	

5.2.9 Evolved cultural understanding

Trust: sharing of communication between partners to the organization was infrequent. Thus, sharing of communication was negative.

Commitment: both partners were not eager to nurture the alliance indicated of failing to increase the alliance's installed capacity. Thus, nurturing of the alliance was negative during the operating phase. With profit of Rp 1.02 trillion, the ROA of 14% was more than the WACC of 13%. Thus, performance of the alliance was positive.

Although the performance of the alliance improved, nurture and care of the alliance is considered neutral due to unclear SPA where the objective of Cemex could not be fulfilled (this made the foreign partner doubt the sustainability of the alliance) and the local partner was unwilling to exercise put option in such a way that Cemex would become the majority shareholder. The condition brought to a negative influence on the trust and neutral influence on the commitment between the partners. From the overall assessment of trust and commitment variables, the condition had a negative influence on the cultural understanding between the partners. An overview is provided in table 5.22.

Table 5.22: Relationships for the evolved cultural understanding factor

No	Variable	Component	Factor
1.	Share of communication (-)	Trust (-)	Cultural understanding (-)
2.	Nurture the alliance (-)	Commitment (+/-)	
3.	Performance of the alliance (+)		

5.2.10 Internal driver

Strategic objectives: The partners in the alliance were not able to achieve its objective to increasing the installed capacity or in other words there was no assurance of the bidding offer to be persisted by partners. Besides that, the foreign partners failed to prove that its resources met complementarity or synergy with the company's resources.

Expectancy: The partners were not able to penetrate to the market they required, and had lack of synergy they seek in the initiation of the alliance especially in terms of technology and resources.

Corporate leadership: Changes in corporate leadership was not the cause of the termination of the alliance since there was no change in corporate leadership.

Based on this, the internal driver was the cause of termination especially derived from the strategic objectives and expectancy variables.

Table 5.23: Relationships for the Internal driver factor

No.	Variable	Factor
1.	Strategic objectives (-)	Internal driver (-)
2.	Expectancy(-)	
3.	Corporate leadership (+)	

5.2.11 External driver

External environment: There were no changes in political circumstances, shifting in business conditions, and changing in economic conditions during the operations of the alliance.

Based on this, external driver was not the cause of termination of the alliance.

Table 5.24: Relationships for the external driver factor

No.	Variable	Factor
1.	External environment (+)	External driver (+)

5.3 Additional insights

Based on description provided in section 5.1, there are a few additional insights that can be provided concerning with stakeholder support (5.3.1), strategic match (5.3.2), cultural understanding (5.3.3), internal support (5.3.4), evolved cultural understanding (5.3.5), and internal driver (5.3.6). These additional insights are aimed to present additional perspectives and

information about the IEP SA that was not covered in section 5.2 (analysis based on the model established in Chapter 3).

5.3.1 Insights on stakeholder support

The government planned privatization of Semen Gresik following the IMF assistance program to restructure the economy which was signed on October 31, 1997. Subsequently, this plan was also motivated by the government to obtain cash inflow one of the means to reduce the budget deficit on expenditure. However, there was no restructurization in Semen Gresik prior to the IEP SA.

Actually, having planned for privatization influenced negatively to the degree of internal relationship in Semen Gresik since due to the obscure and abruptly plan some of the management and employees opposed to the intention to alliance mainly on the issues of employment.

Altogether, motivation of reducing budget deficit in particular in the midst of economic crisis in 1998 and the affected share price in the bourse influenced negatively to the share price of Semen Gresik in the SPA.

Eventually, both low degree of internal relationship and share price influenced to the lack of transparency in the privatization process. This afterwards affected to the absence of the stakeholder support.

Figure 5.2: Stakeholder support – adjusted

5.3.2 Insights on the strategic match

During the initiation of the IEPSA, Cemex promised to establish standardization of system in accordance with its global standard to enhance complementarity with Semen Gresik related to the attractiveness of resources. Adaptation to local needs and requirement was also aimed to be established by Cemex to acquire the complementarity related to the attractiveness of Indonesian market. These were in an effort of the foreign partner to enhance the strategic match between the partners.

Figure 5.3: Strategic match - adjusted

5.3.3 Insights on the cultural understanding

In the alliance, absence on the assurance of bidding offered influenced negatively to the share of communication between partners and nurture of the alliance. Since, this disappointed and demotivated Cemex to share the communication and nurture the alliance.

These, subsequently, influenced negatively to the trust and commitment in the IEPSA.

Figure 5.4: Cultural understanding - adjusted

5.3.4 Insights on the internal organization support

Despite fit in objective declared by the partners in the initiation phase, non-existence of guarantee on employment from Cemex created anxiety to the internal stakeholder particularly during the midst of economic crisis in 1998. It influenced negatively to the lack participation in the implementation of strategic plan which was shown in the strikes and on the street protests in Gresik and Jakarta after the SPA.

Figure 5.5: Internal support - adjusted

5.3.5 Insights on the evolved cultural understanding

Unclear SPA¹⁴, influenced negatively to the nurture of the alliance. After seven years of the initiation, both partners faced with unclear implementation of SPA which had affected negatively to the nurture of the alliance and share of communication. This, in turn, influenced negatively to the lack of trust and commitment in the IEPSA.

Figure 5.6: Evolved cultural understanding - adjusted

¹⁴ Government's reluctance to sell the remaining shares to Cemex in such a way that Cemex would become majority shareholder with 51% shares as well as stakeholder's reluctance to increase the production capacity since it would dilute the government's shares.

5.3.6 Insights on the internal driver

Failure to meet synergy¹⁵ as promised in the SPA and indicated by the reduced market share related with strategic objective and expectancy influenced to the internal drive of the IEPSA termination in 2006.

Figure 5.7: Internal driver - adjusted

5.4 Conclusions

In this chapter the Semen Gresik case was described and the model from chapter three was applied to measure the factors that played a role for the IEPSA.

First research question: what were the phases in the IEPSA?

The four identified phases in the literature, i.e. planning phase (4 months), formation phase (4 months), operation phase (90 months), and termination phase (1 month), could all be identified for the Semen Gresik case. Thus, the phases followed the model.

Second research question: what were the factors in the IEPSA?

During the planning phase, the IEPSA faced challenging conditions, i.e. stakeholder support was negative and the cultural understanding was also negative while the strategic match was positive. Thus, from an analytical perspective the IEPSA could be considered attractive but from a political perspective it was lacking support. The lack of stakeholder support was quite problematic and was caused by a lack of company restructuring, absence of a plan for privatization, low share price compared with the fair value, and a lack of transparency of the privatization process.

During the formation phase, the situation remained unchanged. Internal organization support and cultural understanding were negative whereas the strategic planning was positive. Thus, similar to the first phase, from an analytical perspective the IEPSA was desirable but from a political perspective there were challenges.

¹⁵ Synergy on resources (know-how, technology, human resource, finance) and activities

During the operation phase, the IEPSA's situation became quite positive. Human resource management, the organizational arrangement and the management control system were all positive although the cultural understanding remained negative. This follows from how well the IEPSA was doing. Although the cultural understanding improved somewhat through more frequent sharing of communication and because the foreign partner was more active in local events, there were still issues with the absence of representatives of Cemex at board of director meetings

It is quite possible that the improvement of the IEPSA was simply something that needed time. The first two phases of the IEPSA took from May 1998 until December 1998, i.e. less than one year. It may be that it takes time, e.g. a year, to gain sufficient support from stakeholders and internally in the organization.

However, the partners were not able to achieve the initial objectives which were increasing the installed capacity and number of shares. This was problem that had not been resolved during seven years of the alliance and ultimately caused the termination of the alliance.

Third research question: what were the relationships between factors?

Several relationships between the factors in the model were observed:

- Stakeholder support influence on cultural understanding. There was a lack of communication and socialization upon the intended IEPSA from both partners to the stakeholder especially about security of employment. This lack of communication provided negative influences on the trust between partners which later negatively affected the cultural understanding.
- Cultural understanding influence on internal organization support. Lack of cultural understanding rooted from lack of communication provided negative influences on the eagerness of internal organization to be part of the alliance.
- Internal organization support influence on strategic planning. After Cemex was declared as the winning bidder, the opposition from internal organization still frequently occurred in the form of protests and strikes. This lack of internal organization support had a negative influence on the implementation of strategic planning
- Human resource management influence on management control system. Enhanced human resource management by providing standard in all working positions, intensive training and educational programs had contributed to the achievement of better performance of the IEPSA. As such, by having collaborative people, this positively influenced the management control system of the alliance.
- Organizational arrangement influence on management control system. Decentralization of decision making to the subsidiaries; Semen Padang and Semen Tonasa had contributed to better

control of the head office over the performance of subsidiaries. Thus, this positively influenced the management control system of the alliance.

Summary of factors relationship based on the case is presented in table 5.25.

Table 5.25: Relationship of factors based on the Semen Gresik case

No.	Influencing factor	Influenced factor
1.	Stakeholder support	Cultural understanding
2.	Cultural understanding	Internal organization support
3.	Internal organization support	Strategic Planning
4.	Human resource management	Management control system
5.	Organizational arrangement	Management control system
6.	Management control system	Evolved cultural understanding

Additional insights:

A few additional insights which consist of with stakeholder support, strategic match, cultural understanding, internal support, evolved cultural understanding, and internal driver were obtained.

- The government planned privatization of Semen Gresik following the IMF assistance program to restructure the economy which was signed on October 31, 1997. Subsequently, this plan was also motivated by the government to obtain cash inflow one of the means to reduce the budget deficit on expenditure. However, there was no restructurization in Semen Gresik prior to the IEPSA.

Actually, having planned for privatization influenced negatively to the degree of internal relationship in Semen Gresik since due to the obscure and abruptly plan some of the management and employees opposed to the intention to alliance mainly on the issues of employment.

Altogether, motivation of reducing budget deficit in particular in the midst of economic crisis in 1998 and the affected share price in the bourse influenced negatively to the share price of Semen Gresik in the SPA.

Both low degree of internal relationship and share price influenced to the lack of transparency in the privatization process. This afterwards affected to the absence of the stakeholder support.

- Cemex promised to establish standardization of system in accordance with its global standard to enhance complementarity with Semen Gresik related to the attractiveness of resources. Adaptation to local needs and requirement was also aimed to be established by Cemex to acquire the complementarity related to the attractiveness of Indonesian market. These were in an effort of the foreign partner to enhance the strategic match between the partners.
- Absence on the assurance of bidding offer influenced negatively to the share of communication between partners and nurture of the alliance. Since, this disappointed and demotivated Cemex to

share the communication and nurture the alliance. These, subsequently, influenced negatively to the trust and commitment in the IEPSA.

- Despite fit in objective declared by the partners in the initiation phase, non-existence of guarantee on employment from Cemex created anxiety to the internal stakeholder particularly during the midst of economic crisis in 1998. It influenced negatively to the lack participation in the implementation of strategic plan which was shown in the strikes and on the street protests in Gresik and Jakarta after the SPA.
- Unclear SPA, influenced negatively to the nurture of the alliance. After seven years of the initiation, both partners faced with unclear implementation of SPA which had affected negatively to the nurture of the alliance and share of communication. This, in turn, influenced negatively to the lack of trust and commitment in the IEPSA.
- Failure to meet synergy as promised in the SPA and indicated by the reduced market share related with strategic objective and expectancy influenced to the internal drive of the IEPSA termination in 2006.

CHAPTER 6: CASE STUDY OF BANK NIAGA

In this chapter, the case study of Bank Niaga is presented. Section 6.1 describes the case study with chronology of the case while section 6.2 presents the analysis of the case study based on the framework and model gathered in chapter 3 with the factors of each of the life cycle in the sub-sections. Section 6.3 provides insights gathered from section 6.1. Finally, in section 6.4 the answers to the three research questions are provided.

6.1 Description of Bank Niaga

Bank Niaga was established in 1955. It was listed on Jakarta Stock Exchange in 1989. It was considered as one of the best private banks with good performance. In 2000, it was one of several previously private banks that were taken over by the government. This was called Bank Taken Over (BTO). Bank Niaga was restructured by the government. After the restructurization¹⁶ period from 2000 to 2001, the bank had improved performance. In 2002, it was divested through an IEPSA together with Bank Central Asia (BCA)'s IEPSA. At the time of alliance initiation, Bank Niaga was the ninth largest bank in Indonesia in terms of assets.

In this section, a description of the banking industry before the intended IEPSA is provided in 6.1.1. The IEPSA initiation, which lasts until a SPA is reached, will be described in 6.1.2. The Bank Niaga IEPSA was initiated in February 2002 and lasted until November 2002. The partners in the IEPSA formulated a strategic plan until December 2002 (6.1.3) and implemented this strategy (6.1.4) until the IEPSA was terminated in April 2005 (6.1.5).

6.1.1 Banking industry before the intended IEPSA

The 1998 economic crisis with a declining Rupiah against the U.S. Dollar directly impacted the business sector. In 1998, 50% of the business sector was financed by borrowing in U.S. Dollars. Typically this borrowing was not hedged from exchange rate volatility so that the amount of the debt grew and even exceeded the value of its equity (Bank of Indonesia, 1998). This caused the business sector to have difficulty in paying their obligations to the banks and the banks faced a credit crunch (Bank of Indonesia, 1998). Depreciation of the Rupiah against the U.S. Dollar had a direct impact on the quality of bank lending, especially in terms of the Legal Lending Limit so that the banks in addition to having difficulty in terms of capital also experienced liquidity problems (Bank of Indonesia, 1998).

¹⁶ It refers to the government's intervention in the bank by injecting the restructurization bond due to the bank's poor performance and thus acquired ownership (proportionate with the amount of bond). Furthermore, the government conducted the restructurization/revitalization of its assets; finance, human resources, and organization structure.

During the crisis in January 1998, the Rupiah depreciated from Rp 2,500 per U.S. Dollar to Rp 16,000 per U.S. Dollar. Because of this, the U.S. Dollar was preferred and people tended to withdraw their Rupiah deposits from banks and purchase U.S. Dollars. This left banks with liquidity problems. To prevent the purchase of U.S. Dollars on a large scale and maintain liquidity in the banking sector, the Bank of Indonesia (BI) and the government raised deposit interest rates to up to 60% (Bank of Indonesia, 1998).

A consequence of increasing the deposit interest rates up to 60% was that in order to maintain a positive spread between the deposit rate and the loan rate, the banks also increased the loan rate to the business sector to 70%. This triggered an increase in non-performing business loans in the banking sector which led to a decline in performance of national banking industry.

The monetary crisis that triggered the banking crisis led to the national economic crisis marked by the decline of a number of indicators of Indonesia's economy to a very low point. Indonesia's economic growth fell sharply to reach -13% in 1998. Most companies had difficulties and needed to be restructured. Inflation also increased from 20% to 60% in 1998. The national economic crisis pushed the government to take immediate steps for recovery.

Figure 6.1: Economic Crisis (IBRA, 2004)

With the declining performance of the banking industry, the government and BI conducted liquidation of 16 banks at the end of 1997. This liquidation caused a crisis of public confidence in banks which led to a large scale withdrawal of public funds from the national banking system. By the start of 1999 the national banking performance had not improved, so that the government recapitalized banks. In order to do this, the government developed the Indonesian Banking

Restructuring Agency (IBRA). IBRA was part of a series of strategic policies in response to the banking and economic crisis and was part of the rescue measures and restructuring. The objective was to support the government guarantee program and the restructuring of the banking sector, including the restructuring of corporate debt.

IBRA has the following vision and mission:

1. Vision: Building a powerful government agencies in supporting Indonesia's economic recovery
2. Mission: Supporting the recovery of the economy through the banking sector restructuring, corporate debt restructuring, and optimizing return state money to reduce the burden on the government budget.

According to Law 10/1998 on Banking and PP 17/1999 on IBRA, the main focus of the IBRA is as the following:

1. Guarantee of Commercial Banks Liabilities

In addition to administering the guarantee program, IBRA strived to extend the maturities of liabilities of commercial banks, both against foreign creditors through participation in exchange offer and trade finance and to domestic creditors.

2. Restructuring and Bank Restructuring

Banking sector restructuring program was conducted with other government agencies; Ministry of Finance, Ministry of SOE, and Coordinating Minister for the Economy by dividing banks into three groups, namely a 'healthy bank' included in the recapitalization program, 'viable banks' defined as bank under restructurization by BI and taken over to be managed by IBRA (called bank taken over or BTO), and 'unviable banks' declared as no potential banks called as *Bank Beku Operasi* and *Bank Beku Kegiatan Usaha* (BBO and BBKU).

3. Corporate and Bank's Debt and Asset Restructuring

This was done through restructuring or foreclosure/liquidation of assets.

4. Settlement of Bank Shareholder Liabilities

This policy applied to bank BBO/BBKU and BTO which were handed over to IBRA in which the former controlling shareholders have obligations to the bank in connection with a violation of the Lending Limit Liability (LLL).

5. Asset Sales and Refund State

To maximize the potential return of state's money and reduce the burden on the government budget, IBRA executed divestitures and asset sales program. Based on the source of acquisition, the assets IBRA divided into 3 groups as follows:

- a. Banks under IBRA control,

- b. Loan portfolio and assets of the restructured companies whose some or all of the shares controlled by IBRA, and
- c. Assets and liabilities of the former controlling shareholders of banks BTO, BBO and BBKU under IBRA control.

The basic principles adopted by IBRA in implementing strategic and operational tasks are as the following:

- Principle of Justice: in carrying out the duties of closing of the bank, settling third-party claims, valuating of assets, IBRA applied the principle of fairness in every process including the allocation of losses and respect existing rights while protecting the interests of the government.
- Transparency: the objective is to maintain the support of the public and the integrity of IBRA.
- Accountability: is the principle of how IBRA used its obligation and duties according to the underlying statutory mandate and reported the results to stakeholders in a professional manner.
- Maximization financial value of the assets under their control. It was recognized that the current cash flow was more valuable than the cash flow in the future. Therefore, the sale of assets was undertaken as soon as possible without damaging the value of assets and taking into account existing market potential.
- Giving priority to the interests of Indonesia. In the difficult economic conditions, IBRA preferred alternatives that had the least negative effect on the provision of employment and social welfare.

To promote Good Corporate Governance and transparency as well as monitoring the performance of IBRA, the government established the Implementation Monitoring Committee Task or the Oversight Committee (OC). OC was formed based on the Coordinating Minister for Economy Decree No.KEP.02/K.KKSK/08/2000 dated on August 7, 2000, with the tasks below:

1. Enforcing corporate governance and transparency in the IBRA including policy compliance.
2. Monitoring the performance of IBRA especially concerning strategic fields.
3. Providing a recommendation either requested or unsolicited and to the IBRA

The OC consisted of nine members who were selected from independent professionals and were required to have integrity and commitment in carrying out a given task. OC members were proposed by the Financial Sector Policy Committee/*Komite Kebijakan Sektor Keuangan* (KKSK). The Minister of Finance determined the Chairman and Members of the OC.

The implementation of the recapitalization of private banks was regulated by the Decree of Minister of Finance and Governor of BI No. 53/KMK.017/1999 and 31/12/KEP/GBI 1999, which stated that the recapitalization will be made only to banks that have passed the selection. Selection of the banks

was undertaken in stages by three committees, namely the Technical Committee, Evaluation Committee, and the Policy Committee. Each committee consisted of a team of IBRA, BI, and the Ministry of Finance.

The selection was assisted by banking consultants with international reputation, including three main evaluation criteria, namely:

- Financial evaluation

Evaluation of the financial position of the bank was undertaken using very strict international standards to determine eligibility to participate in a bank recapitalization program. Banks that had a Capital Adequacy Ratio (CAR) above 4% were classified as Category A. They were allowed to continue operation without government interference. Banks that had CAR between 4% to negative 25% were called Bank Category B. Banks that had CAR below negative 25% were called Bank Category C. Banks that were not able to raise the CAR up to negative 25% would be frozen in operation.

- Business prospects evaluation

After evaluation of the financial position, the selection process was followed by an evaluation of the business prospects with respect to corporate value.

- Fit and proper evaluation

The evaluation included the ability and integrity of management and controlling shareholders. The results of this fit and proper test were to determine the feasibility of management and the bank's controlling shareholders to participate in the recapitalization of the bank concerned.

Based on the evaluation, the resolution of these banks was as following:

- Bank Category B (viable banks) whose shareholders were willing to participate for a minimum of 20% of the recapitalization expense by December 31, 1998 was included in the restructuring and recapitalization of private banks (Recapitalization Bank).
- Bank Category B, but whose shareholders were not willing to participate in the recapitalization expense. They were taken over by the government (BTO).
- Operations were frozen of banks in Bank Category B which did not pass further evaluation criteria (non-viable banks). Except for a few banks whose depositor's account number exceeded 80,000, which were taken over by the government (BTO).

In 1999, IBRA initiated recapitalization of Bank Niaga. On May 31, 2000, the bank was then taken over as a BTO since the previous owner was not able to participate in 20% of the recapitalization

expense. Total recapitalization bonds¹⁷ issued were worth Rp 9.5 trillion. It was obtained after having approval from the House of Representatives, Commission IX, in a hearing held on March 30 and May 25, 2000. This decision was based on the consideration that the cost of recapitalization was cheaper than the cost of liquidation. Having injected Bank Niaga with the recapitalization bond, the government through IBRA, controlled a 97.2% stake in Bank Niaga.

**Table 6.1: Cost of recapitalization and government's shares at Bank Niaga
(IBRA, 2004)**

Total Cost of Recapitalization	Cost of Recapitalization From Government	Cost of Recapitalization From Investor	Shares of Government After Recapitalization
Rp Trillion	Rp Trillion	Rp Trillion	%
9.651	9.463	0.188	97.2% ¹⁸

After being taken over by the government in 2000 and following the restructurization Bank Niaga improved its performance as presented in table 6.2. By the end of 2001, Bank Niaga posted a net profit of Rp 203.3 billion.

Table 6.2: Key Financial Indicators of Bank Niaga

Financial Position (in Rp Trillion)	31/12/1999	31/12/2000	31/12/2001
Total Asset	6.65	18.70	22.98
Total Deposit	12.58	14.44	17.28
Total Equity	(8.42)	1.10	1.22
Total Loans	6.12	6.30	7.94
Net Profit (Loss)	(5.60)	0.64	0.20
Recap Bond	-	9.34	8.40
Key Ratios (%)			
CAR ¹⁹	(122.61)	21.34	16.58
ROA	(59.22)	0.52	0.37
ROE	n.a.	(1.77)	20.62
LDR ²⁰	48,67	43.66	45.96

¹⁷ Recapitalization bonds are bonds issued by the government in connection with the Bank Recapitalization Program. Total recapitalization bond was Rp 431 trillion or equivalent to US\$ 43 billion.

There are three main categories of banks participate in the program which are:

- Commercial banks, including PT. Bank Lippo Tbk., PT. Bank International Indonesia Tbk., PT. Bank Bali Tbk., PT. Cooperative Commercial Bank Indonesia, PT. Bank Universal Tbk., PT. Bank Prima Express, PT. Bank Arta Media, PT. Patriot Bank, PT. Bank Central Asia, PT. Bank Danamon Indonesia Tbk., PT. Bank Tiara Asia Tbk., PT. PDFCI Bank Tbk. and PT. Bank Niaga Tbk;
- State-owned banks, including PT. Bank Negara Indonesia (Persero) Tbk., PT. Bank Rakyat Indonesia Tbk., PT. Bank Tabungan Negara Tbk., and PT. Bank Mandiri;
- Regional Development Bank, among others BPD Daerah Istimewa Aceh, BPD Sumatera Utara, BPD Bengkulu, BPD Lampung, BPD Daerah Khusus Ibukota Jakarta, BPD Jawa Tengah, BPD Jawa Timur, BPD Kalimantan Barat, BPD Sulawesi Utara, BPD Maluku, BPD Nusa Tenggara Barat and BPD Nusa Tenggara Timur.

¹⁸ The proportion of public ownership which amounted to Rp 0.278 trillion was 2.8% of the total shares after the recapitalization. During the recapitalization, the government acquired the cost of ownership from the investor (the previous owner of Bank Niaga) which was worth Rp 0.188 trillion since the investor was not able to pay the cost of recapitalization up to 20% of the total. Hence, afterwards the total cost of recapitalization from the government was Rp 9.651 or 97.2% from the division of total cost of restructurization with total equity (9.651/[9.651+0.278]).

¹⁹ Capital Adequacy Ratio. Defined as the ratio of bank's capital to its risk assets. Minimum requirement of Bank Indonesia is 8%

Financial Position (in Rp Trillion)	31/12/1999	31/12/2000	31/12/2001
NIM ²¹	(15.70)	(1.15)	0.84
NPL ²²	73.84	29.82	8.28
IBRA Ownership	-	97.15	97.20

In 2002, the market expansions of the banking industry were focused on industrial, trading, and services sectors. The loans from those sectors from commercial banks represented more than 90% of the total loans provided. There was a shift in loans from the corporate to the consumer segment since consumer segment inherently had less risk than the corporate because of the spread among a larger number of debtors. A list of prominent banks is presented in table 6.3.

Table 6.3: Top banks in Indonesia (2002)

Rank of Asset	Bank	Gov't	Private	Public	Foreign	Total Asset (Rp Trillion)
1.	Bank Mandiri	69.19 %	-	30.81 %	-	251.6
2.	Bank Central Asia	8.56 %	5.2 %	35.24 %	51 %	143.8
3.	Bank BNI	99.11 %	-	0.89 %	-	125
4.	Bank BRI	58.93 %	-	41.07 %	-	86.3
5.	Bank Danamon	76%	-	24%	-	46.9
6.	Bank International Indonesia	93.7%	-	6.3%	-	32.8
7.	Bank BTN	100 %	-	-	-	27.1
8.	Bank Lippo	100%	-	-	-	25.2
9.	Bank Niaga	97.2%	-	2.8%	-	23.11

Adapted from each bank's annual report

6.1.2 The IEP SA initiation: February to October 2002

The reason behind the establishment of the IEP SA was a Letter of Intent between the government of Indonesia and the IMF which was signed in 1998. The objective was to help the Indonesian economy out of the crisis through having privatization plan, restructuring, and divestment of the taken over banks (BTOs) including Bank Niaga.

Bidding process

The privatization process began in February 2002 after the restructurization when the government sent a letter (through a mass media announcement) to prospective partners explaining its intention

²⁰ Loan to Deposit Ratio. Commonly used statistic for assessing a bank's liquidity by dividing the banks total loans with its total deposits

²¹ Net Interest Margin. Percentage difference between the interest income produced by a bank's earning assets (loans and investments) and its major expense-interest paid to its depositors. The net difference between interest earned and interest paid is a key measure of bank profitability

²² Non Performing Loan. It is percentage of a loan where the borrower has failed to make the agreed upon scheduled payments based on the loan agreement

to sell 51% of its stake. To determine the winning partner, IBRA undertook an evaluation in two stages based on the recommendation from Financial and Legal Advisors.

Preliminary bids were received from four companies: PT. Bank Victoria International Tbk, Batavia Investment Management Limited, ANZ Banking Group Limited, and Commerce Asset-Holding Berhad. IBRA with the assigned financial consultants (PT Trimegah Sekuritas) and law consultants (Kartini Mulyadi) undertook the first evaluation stage to determine a shortlist of bidders which would be eligible to participate in the second stage.

In the preliminary bid, the offering price from the investors was non-binding so that the focus evaluation of the first step was to seek for the quality of investors.

In order to evaluate the investors, there was an Evaluation and Strategic Commitment Team with the specified tasks provided in table 6.4.

Table 6.4: The evaluation team and its task on the first stage of bidding

No.	Team	Task
1.	Evaluation	Screening investors based on experiences on strategic alliances, financial capability.
2.	Strategic commitment	Analyzing the commitment to the alliance and development of banking industry in Indonesia

The selection criteria to determine the shortlist of bidders consisted of the following:

1. Financial institution experience : 40 maximum point
2. Non binding bid price : 20 maximum point
3. Financial condition : 15 maximum point
4. Merger & Acquisition experience : 5 maximum point
5. Procedural compliance : 5 maximum point
6. Commitment to national interest : 5 maximum point
7. Ability to close : 5 maximum point
8. Terms of buying : 5 maximum point

Three bidders were selected for a shortlist as presented in table 6.5. The fourth company, PT. Bank Victoria International Tbk, was not shortlisted because it did not provide the assigned preliminary bid document.

Table 6.5: Shortlisted investors of Bank Niaga's IEPSA

No.	Investor	Country
1.	Batavia Investment Management Limited	Indonesia
2.	ANZ Banking Group Limited	New Zealand
3.	Commerce Asset-Holding Berhad (CAHB)	Malaysia

Afterwards, the shortlisted bidders underwent the following process:

- Due diligence process
- Final bid submission sales and purchase agreement (SPA), escrow agreement²³, and bid bond²⁴
- Submission of fit and proper test document of final bidders from IBRA to Bank of Indonesia
- Fit and Proper Test Conducted by Bank of Indonesia
- Winners determination
- Announcement
- Closure of transaction

During the second stage of the bidding process, the government set up teams for Fit and Proper, Evaluating Bid, and Evaluating SPA.

Table 6.6: The evaluation team and its task on the second stage of bidding

No.	Team	Task
1.	Fit and Proper	Conducting the Fit and Proper Test
2.	Evaluating Bid	Evaluating the final bid consisting of technical aspects, business plan, and price
3.	Evaluating SPA	Evaluating the term in the SPA

The purpose of the second stage was to evaluate the final bid document using the following test criteria:

- Final bid submission; sales and purchase agreement (SPA), escrow agreement, and bid bond
- Fit and Proper Test document
- Bank or Financial institution or if the investor was consortium, the consortium should be led by the bank or financial institution having majority voting rights
- The prospective investors were not parties who were forbidden to buy back the share of Bank Niaga as regulated by KSK no. Kep.03/K.KSK/11/2000 on November 10, 2010.

The comparative test criteria for the Final Bidders passing the second stage were as the following:

1. Bid Price : 45 maximum point
2. Quality of Bidder : 30 maximum point
3. Terms and Condition within SPA : 20 maximum point
4. Business Plan : 5 maximum point

Only the investors fulfilling the test criteria were evaluated to the Fit and Proper Test Pass from the Bank of Indonesia.

²³ Document issued by a bank to certify that the securities or other assets listed in it are on deposit with the bank.

²⁴ Documents required to be submitted in response to an invitation to bid. These include the prescribed bid form, drawings, specifications, time lines, charts, price breakdowns, etc.

At this stage it was revealed that Batavia Investment Limited did not submit the fit and proper test document and bid bond so it was removed from the process leaving ANZ and CAHB.

On June 30, 2002, CAHB was declared as the winner. Its bidding share price of Rp 22.5 was more than what ANZ offered and the results of the fit and proper test were passed by the Bank of Indonesia. The government urged CAHB to increase its bidding price to Rp 26.5 which was agreed by CAHB. Although the price was higher than the book value of Bank Niaga (which was Rp 18 per share), it was below its market price (Rp 100 per share). The lower bidding price compared with the market price had led to prolonged discussions between the Government and People's Representative Assembly which temporarily suspended the process of divestment.

The prolonged discussions between Government and People's Representative Assembly about the relatively much lower bidding price than the market price was solved after the head of Oversight Committee (OC) of Bank Niaga's IEPSA, Gunarni Suworo, explained to President Megawati that 1.48 PBV was within the range of normal price of banking privatization in South East Asia. The high market price (Rp 100 or 6 PBV) occurred due to the illiquid or limited Bank Niaga's shares (which were only 2.8%) in the bourse or stock exchange which did not reflect its performance. As such, there was no transparency issue in the initiation of the IEPSA.

Eventually, on November 11, 2012 government and parliament had come to a consensus that the winner CAHB could provide the SPA to legitimate its existence in Bank Niaga. The SPA consisted of the commitments of CAHB in terms of:

1. Enhancing and improving the performance of Bank Niaga, and
2. Participating in the improvement of Indonesian Banking Industry
3. Facilitating 4 directors from CAHB and 3 directors from the government including independent consultant
4. CAHB was able to withdraw from the IEPSA in the event that a loss occurred of more than 20% of Bank Niaga's equity

While the divestment process through the IEPSA was on-going, the government was also selling 18.22% of its shares on the stock exchange from July 8 to September 11, 2002. After the completion of these sales and the IEPSA, the government had sold 51% of shares to CAHB and 18.22% of shares to public in the stock exchange. Hence, the government's shares declined from 97.2% to 27.98%. The Public's shares increased from 2.8% to 21.02% and CAHB possessed ownership of 51%. This ownership structure is presented in figure 6.2.

Figure 6.2: Ownership structure of Bank Niaga after IEPSA

The alliance partners

Bank Niaga was the 9th largest bank in Indonesia by amount of assets (Annual Report Bank Niaga, 2002). It had a distribution network of 149 branches and kiosks predominantly in the main commercial centers in Indonesia. It received awards in the area of service quality from 1996 to 2001 from Info Bank (2001). Bank Niaga was also a recipient of the best practitioner of corporate governance award from the Jakarta Stock Exchange in 2001 (Info Bank, 2001). Bank Niaga had never formed alliances with foreign partners. It had twice experienced a major shift in ownership (the prospective alliance with CAHB was the third experience for Bank Niaga of changing major ownership). Until 1972 the bank belonged to an Indonesian businessman, Soedarpo Sastrosatomo and later due to financial difficulty it was sold to Julius Tahija, also an Indonesian businessman, until the economic crisis in 1997. Before the crisis, it was known as the bank which focused on providing loans to the corporate segment. However, recently the bank shifted its focus on consumer and commercial segments. In 2002, the provision of loans from Bank Niaga included corporate, consumer, and commercial lending. The bank was known by its high degree of internal relationship between employees and management which was intensified by the prior restructurization.

The Commerce Group of Companies was a leading financial conglomerate in Malaysia's rapidly growing financial system. It was Malaysia's second largest financial services provider and one of Southeast Asia's leading universal banking groups. Headquartered in Kuala Lumpur, its key regional offices were located in Singapore and Thailand. At the helm was CAHB listed in the financial section of the Kuala Lumpur Stock Exchange (KLSE). CAHB was a diversified investment and management holding company with interests in commercial banking, merchant banking, stock broking, offshore banking, finance company, discount house, leasing, factoring, futures broking fund management, unit trust management, venture capital and life insurance. CAHB had engaged with international alliances in Singapore, Hong Kong, Tokyo, London, and Mauritius.

Technology

Information Technology (IT) was a key resource. CAHB owned sophisticated IT to reach and service the customers. Bank Niaga had a Directorate of Operation and Information Technology (DO-IT). E-banking of Bank Niaga was regarded as one of the banks that provided the most complete range of products and services through telephone, TV set, internet, and cellular phone.

CAHB had IT technology in the segment of consumer banking services across its main operating markets in Malaysia, Indonesia, Singapore, and Thailand. It also had expertise in the wholesale banking services which comprised of two divisions: Investment Banking and Corporate Banking, Treasury & Markets.

Capital need

Both partners were committed to increase assets to twice as much as the present value in 2002. Furthermore, in case of inadequate CAR, CAHB was willing to increase the equity. This commitment was reflected in the bank's vision which was to become the fifth largest bank in terms of asset number in Indonesia in 2007.

In 2002, Bank Niaga's total assets were Rp 23.11 trillion, with a CAR of 12.72%. Total loans issued were Rp 8.9 trillion, with total third party deposits of Rp 19.25 trillion, LDR was 46.27%, and NPL of 7.63%. The LDR and NPL ratios were regarded as one of the best performers among others.

CAHB was committed to form a long-term alliance with Bank Niaga and willing to inject additional capital to Bank Niaga wherever necessary. In terms of financial capability, CAHB was the second largest financial services group in Malaysia, and seventh largest company by market capitalization on Kuala Lumpur Stock Exchange (KLSE). The assets were about US\$ 25 billion, the CAR was 13.7%, the LDR was 85%, and NPL was 5%.

The alliance intended to invest heavily in IT technology. To contribute to the bank's Vision 2007 three specific units were intended to establish, a Programme Management Office tasked with monitoring progress and effectiveness of all IT projects, an R&D team working closely with business units and other IT end-users and an IT Relations Unit to improve understanding of, and communications with users throughout the bank.

Strategies

Bank Niaga had a vision for 2007 to become a top-five bank in the Indonesian banking industry with a focus on retail, medium and large enterprises. CAHB was committed to achieve the vision through shared resources and promised to inject capital. In other words, there was a fit in objective between the two partners.

Both prospective partners were following a growth strategy. CAHB used its traditional game name ‘congak’²⁵ to describe its strategy.

Bank Niaga needed the alliance to reach its vision for 2007. CAHB was in pressure of expanding to other potential markets. Indonesia’s market was still growing, thus, a lot of opportunities existed in the market according to Peter Benyamin Stock, the President Commissioner (Annual Report of Bank Niaga, 2002). CAHB was committed to form a long-term alliance with Bank Niaga and was willing to inject additional capital to Bank Niaga wherever necessary. However, especially for CAHB there were other alternatives for forming an alliance since there were several banks in Indonesia, such as BCA, Permata, and Bank International Indonesia (BII).

The economic environment and share price

Indonesian GDP growth was 0.2% in 1999, 3.5% in 2000, and 5.0% in 2001 with exchange rate fluctuations of the Rupiah to the U.S. Dollar from Rp 7,085 in 1999, Rp 9,595 in 2000, to Rp 10,400 in 2001. Inflation rates were still high (20.32% in 1999, 4.52% in 2000, and 12.02% in 2001). These macroeconomic data were the bases of the government’s motivation to privatize Bank Niaga one of the means to reducing budget deficit.

CAHB purchased the government shares at Bank Niaga by 1.48 times the Price to Book Value (PBV) or equal to Rp 26.5 per share. It was 48% higher than the book value of Bank Niaga which was Rp 18, but was much lower than its current share price at Jakarta Stock Exchange which was Rp 100 as presented in table 6.7. The total shares purchased were 39.9 billion or equal with Rp 1.057 trillion (US\$ 123 million).

Table 6.7: Share price of Bank Niaga from February to June 2002

No.	Month	Share Price	Situation
1.	February 2002	Rp 50	The government sent teaser letter to prospective partners
2.	March 2002	Rp 55	The market reacted positively to the intention of forming the alliance
3.	April 2002	Rp 60	Prospective partners conducted due diligence
4.	May 2002	Rp 75	
5.	June 2002	Rp 100	The month of SPA

As presented in table 6.8, the selling price of Bank Niaga to CAHB as much as 1.48 PBV with the total revenue to the government of Rp 1.1 trillion was considered as below its fair value which was

²⁵Congkak is a game for two. It consists of a board which has several 'houses' and 'storehouses'. The objective of the game is to gather as many congkak seeds into the 'storehouses' on the player's side. It is a game which is played during one’s free time and is normally played by women, and was especially liked by the youths. The game, whose gameplay is similar to *mancala*, is commonly played in (Indonesia (Borneo), Singapore, Malaysia, and Philippines).

worth of 1.57 PBV. The reason for comparing the price with the fair value of the company is that it takes the current as well as the future into accounts not only the current condition but also the expected future condition (Malhotra, 2003).

Table 6.8: Comparison between selling share price and fair value of Bank Niaga

No.	Item	Selling Price	Fair Value
1.	Price to Book Value	1.48	1.57
2.	Amount of 51 % share of equity	Rp 1.1 trillion	Rp 1.2 trillion

6.1.3 Setting up the IEPSA: December 2002

The strategy was initiated by the board of directors of Bank Niaga (see table 6.9), which consisted of four directors from Indonesia and three directors from Malaysia.

Table 6.9: Board of Directors of Bank Niaga

No.	Name	Position	Nationality
1.	Peter B. Stok	President Director	Malaysia
2.	Hashemi Albakri	Vice President Director	Malaysia
3.	C. Heru Budiargo	Director of Compliance & Risk Management	Indonesia
4.	Tay Un Soo	Director of Finance & Corporate Planning	Malaysia
5.	Daniel James Rompas	Director of Business Banking	Indonesia
6.	V. Catherinawati Hadiman	Director of Corporate Banking	Indonesia
7.	Andi Mohammad Hatta	Director of Information Technology and System	Indonesia

The new vision and mission was developed by the President Director assisted by the Vice President Director and discussed with other Directors.

The strategic plan was derived from the existence of informal meeting on strategy formulation during a prolonged planning phase. The alliance set up its strategic planning in such a way that 1) CAHB was not allowed to leave the alliance within three years, 2) improving human resource quality, and 3) extension of new technology. Both partners set up a joint vision and determined challenging objectives which were: becoming the fifth bank in Indonesia in terms of amount of assets, doubling the number of assets, and being the leading bank in commercial, consumer, and retail segments.

In terms of strategic formulation, it was initiated by the Director of Finance & Corporate Banking. The functional strategies along with the assigned activities were developed based on discussions among directors. These functional strategies were aligned with the corporate and the competitive strategies as well as with the vision and mission of the bank. The developed strategies and activities were reported and consulted to the Commissioners consisting of four Indonesian and four Malaysian as in table 6.10.

Table 6.10: Board of Commissioners of Bank Niaga

No.	Name	Position	Nationality
1.	Rozali bin Mohammad Ali	President Commissioner	Malaysia
2.	Gunarni Soeworo	Commissioner	Indonesia
3.	Sigid Moerkandjono	Commissioner	Indonesia
4.	Datuk Hamzah bin Bakar	Commissioner	Malaysia
5.	Dato' Halim bin Muhamat	Commissioner	Malaysia
6.	Umar Rusli	Commissioner	Indonesia
7.	Ananda Barata	Commissioner	Indonesia
8.	Roslan A. Ghaffar	Commissioner	Malaysia

The strategies and the supporting activities are presented in table 6.11.

Table 6.11: Strategy components of Bank Niaga in 2002

No.	Strategy components	Description
1.	Vision	To become a top 5 bank in Indonesia in 2007.
2.	Mission	<ul style="list-style-type: none"> • To endeavor to develop a leading retail banking which committed to provide high quality products and services as well as added value to stakeholders • To provide high quality services based on risk management and support of financial resources, effective technology, and support of integrity of the employees
3.	Corporate strategy	Growth strategy to anticipate the growing number of banking market in the attainment of becoming the top 5 bank in Indonesia
4.	Competitive strategy	Provide premium products and services in commercial, consumer, and retail segments with a sufficient size and economic of scale in operations to ensure efficiency and attain market share
5.	Functional Strategy	<ul style="list-style-type: none"> • Concentrate on being customer centric by clearly defining market segments and the fulfillment of clearly defined customer needs • Ensure that everything right at the transaction hub, centering retail banking strategy around the customer and keeping the distribution system balances and cost effective • Pursue an information-based strategy, ensuring the engineer use of technology and channels to ensure the customer gain access to date information, consistently, easily, and reliably
6.	Activities	<ul style="list-style-type: none"> • A clear focus in each business • Expand delivery channels in line with segment focus • Rapidly expand sales and relationship management • Upgrade risk management to support rapid loan growth • Adapt operations and support functions to efficiently serve an expanding business

The vision, mission, objectives, and strategic planning were communicated to the stakeholders. All managers and employees participated and supported the strategic planning due to fit in objectives to achieve vision 2007 and coupled with the existence of guarantee on employment.

6.1.4 Running the IEPSA: January 2003 to March 2005

Human Resources

In the implementation of its strategic planning, the alliance committed to extend the capabilities of the employees. The alliance set up training centers and a Learning and Management Group. The trainings were facilitated to extend the optimum potential value of every employee. It had a nine-month training program in order to extend employees capability in understanding the banking industry, where employees from different educational backgrounds took up the training. Employees could follow on the job training in Malaysia to learn about the capabilities of the Malaysian partner. The alliance provided an annual climate survey to all departments to estimate the working climate. In order to align the alliance's objectives and employees', all employees were provided with Employee Stock Ownership Program (ESOP), in accordance with the level.

Management of the alliance

In order to enhance the responsiveness and flexibility, the alliance set up a matrix organization²⁶, for example the Business Unit only focused on business itself and not disturbed by supporting activities. The supporting activities within Business Unit were handled by a separate entity. The hierarchy and span of control in any of the group remained. It was no higher than four layers while any wider scope of the group was no higher than six layers. The geographic areas were able to make decisions, especially if the loan fell below a certain value.

In order to support the vision, several control programs were developed. It ranged from general meeting of shareholders, remuneration, audit committee, and risk management. These control attributes were the instruments of feedback to the commissioners, Board of Directors, top management, and management. It complied with the Bank of Indonesia regulation which was intended to anticipate the occurrence of past mistake. In order to effectively plan and control the implementation of strategic planning, a corporate planning had been set up. Monitoring of performance and targets had been tightened by building a better understanding of transaction costs and advancing IT architecture that was easily accommodating a move upscale. To assure the alignment of strategies and effective implementation, the alliance had developed measuring overall strategic performance through a Performance Management System (PMS) with the help of IT. The performance management system was a tool to implement strategy. It was a useful tool to communicate the alliance goals and objectives, reinforce individual accountability for meeting those goals, and to track individual and alliance performance results.

²⁶ This organizational type assigns each worker two bosses in two different hierarchies. One hierarchy is "functional" and assures that each type of expert in the organization is well-trained, and measured by a boss who is super-expert in the same field. The other direction is "executive" and tries to get projects completed using the experts. Projects might be organized by products, regions, customer types, or some other schema.

Trust

The trust and commitment variables between partners during the operation phase improved compared to the beginning phases of alliance. The directors always communicated and disseminated the new vision to become the fifth biggest bank in Indonesia in terms of asset size in 2007 to all the organizations. Hence, employees were set to focus on achieving contributions to acquire the goals. The actual achievement by 2007 was that the bank ranked 6th in terms of assets, that means it had moved up three positions from its initial 9th rank in 2002.

Performance of the alliance

The year 2004 was a record year for Bank Niaga. As presented in table 6.12, the net income grew 41% to Rp 660 billion. At the time, Bank Niaga was the eighth largest bank in Indonesia in terms of assets. The bank had expanded low cost funding by 28% and loan growth was exceptional especially in the consumer segment which grew 90%. The contributions from Consumer and Small and Medium Enterprise (SME) businesses had reached a level of the bank's goal of being a force in retail banking (Annual Report of Bank Niaga, 2004). The bank had expanded into 45 branches, a larger ATM network, cutting-edge products, and 900 new staff members. The alliance managed the bank's capital efficiency by increasing the ROE to 43.77%, and was among the highest ROE banks.

Table 6.12: Indicators and performances of Bank Niaga in 2002 and 2004

No.	Indicator	2002	2004
1.	Number of asset	23.11 trillion	30.8 trillion
2.	Third party deposits	17.9 trillion	24.7 trillion
3.	Profit	Rp 141 billion	Rp 660 billion
4.	ROE	12.22%	43.77%
5.	ROA	0.61%	2.76%
6.	LDR	60.23%	85.28%
7.	NPL	6.16%	3.18%
8.	CAR	12.72%	10.29%
9.	NIM	2.33%	5.36%

6.1.5 Closing of the IEPSA: April 2005

The divestment of government's shares in Bank Niaga through the stock exchange was conducted gradually in July to September 2002 (18.22% of shares), September 2003 (3.225% of shares), and February 2004 (3.225% of shares). By April 2005, the remaining government's shares in Bank Niaga as much as 21.53% were sold to the stock exchange where CAHB bought additional 1.6% of the shares. The sales of these shares were intended to release the ownership function of government in Bank Niaga due to the government policy to leave the bank once it had achieved superior performance. Following this, the government had no longer any stake in Bank Niaga and performed only its full function as a regulator. After the last divestment, Bank Niaga's ownership was

dominated by CAHB with the ownership of 52.6%, the foreign partner bought additional 1.6% in the stock exchange, while the public owned 47.4% of Bank Niaga's ownership in the bourse.

6.2 Analysis

In this section, the model from chapter three is applied to 'evaluate' the Bank Niaga IEPsA. The description provided in section 6.1 is similar to the phases identified in chapter three. It can therefore be concluded that the life cycle of the IEPsA is in accordance with the theory described in the previous chapter differentiated into a planning, formation, operation, and termination phase.

Table 6.13: Time and duration of each phase

No.	Phase	Time	Duration
1.	Planning	February to November 2002	10 months
2.	Formation	December 2002	1 month
3.	Operation	January 2003 to March 2005	27 months
4.	Termination	April 2005	1 month

This section provides an analysis of the presence/importance of the factors from the model, i.e. stakeholder support (6.2.1), strategic match (6.2.2), cultural understanding (6.2.3), internal organization support (6.2.4), strategic planning (6.2.5), human resource management (6.2.6), organizational arrangement (6.2.7), management control system (6.2.8), evolved cultural understanding (6.2.9), internal driver (6.2.10), and external driver (6.2.11).

6.2.1 Stakeholder support

Internal organization support: Bank Niaga had prior restructurization and the government had already planned for Bank Niaga's privatization before the intended IEPsA which was permitted by the representative. Thus, internal organization support was positive.

Society support: there was a change in the ownership structure, i.e. the government gave up its majority stake. Share price deviated less than 10% from its fair value, thus the share price had a positive influence. The process of IEPsA planning was transparent. Thus, society support was positive.

Based on this, it can be concluded that stakeholder support for the alliance during the planning phase of the IEPsA was positive. Practically, there was no opposition from top management upon the shift of ownership. Lack of opposition stemmed from the characteristics of Bank Niaga's organization for it was a stand-alone company whose ownership did not belong to any of the conglomerate groups which was common to other BTOs. This unique characteristic brought about tight relationship between the management and employees so that any information was smoothly

conveyed from the management to employees to create transparency such as about the privatization process. An overview of stakeholder support is provided in table 6.14.

Table 6.14: Relationships for the stakeholder support factor

No.	Variable	Sub-Factor	Factor
1.	Company restructuring (+) Plan for privatization (+)	Internal organization support (+)	Stakeholder support (+)
2.	Change in ownership structure (-) Share price (+) Transparency of the privatization process (+)	Society support (+)	

6.2.2 Strategic match

Attractiveness of macro-economic conditions: The last three years data show that inflation rate exceeded the GDP growth. The exchange rates of Rupiah to U.S. Dollar fluctuated by as much as 47%. Thus, GDP growth and currency rate were negative.

Attractiveness of market: the market share of Bank Niaga was ranked 9 in the top banking industry in Indonesia. Growth of market was more than 10% from 2001 to 2002. Based on this, market share and growth of market were negative and positive respectively. Thus, the attractiveness of market was neutral.

Alliance track record: Bank Niaga had never formed alliances with foreign partners. CAHB had engaged with international alliances in Singapore, Hong Kong, Tokyo, London, and Mauritius with successful results. Thus, the alliance track record was neutral.

Attractiveness of product or service: the quality of product and service were good and Bank Niaga was innovative in adapting products or services to the shifting of market requirement from the corporate segment to consumer and commercial segments. Thus, the attractiveness of product or service was positive.

Attractiveness of technology: E-banking of Bank Niaga was regarded as one of the banks that provided the most complete range of products and services. The information technology had been integrated in the organization. Thus, attractiveness of technology was positive.

Attractiveness of financial performance: the ROA of 0.61% was less than WACC of 17% while growth of sales exceeded 10%. Thus, attractiveness of financial performance was neutral.

Capacity: the combination of the six components discussed above leads to the conclusion that the capacity had a positive influence on the strategic match.

Complementarity related to the attractiveness of the market: since the foreign partner's market was in the state of growing to maturity while domestic partner's was in a growth period it can be concluded that this was positive for complementarity.

Complementarity related to the strategy: since both partners were following a growth strategy, it can be concluded that this was positive for complementarity.

Complementarity related to the attractiveness of resources: Both partners were able to gain benefits from each other products and services. In terms of technology, there was a plan to have transfer of technology by providing training for Bank Niaga's employee to Malaysia especially about information technology. CAHB declared that they committed to inject additional capital to Bank Niaga wherever necessary. It can be concluded that the complementarity of the attractiveness of resources was positive.

Complementarity: the combination of the three variables discussed above leads to the conclusion that complementarity had a positive influence on the strategic match.

Pressure on continuity: both partners showed commitment to continue the alliance as reflected in the SPA. Thus, pressure on continuity was positive.

Pressure of time on alliance: Both partners treated the alliance as an important opportunity to grasp for the sake of their existences. Thus, pressure of time of alliance was positive

Alternative to cooperation: both partners had other alternatives to forming IEPsA. CAHB had alternatives with other BTOs such as Bank Danamon and Bank International Indonesia (BII). Bank Niaga had alternatives to form alliance besides CAHB. Thus, the alternative to cooperation can be considered negative.

Strategic importance: the combination of the three variables discussed above leads to the conclusion that strategic importance had a positive influence on the strategic match.

Based on this, it can be concluded that the strategic match of the two partners in the alliance during the planning phase of the IEPsA was positive. An overview is provided in table 6.15.

Table 6.15: Relationships for the strategic match factor

No.	Variable	Component	Sub-Factor	Factor
1.	GDP growth (-) Currency rate (-)	Attractiveness of Macroeconomic situation (-)	Capacity (+)	Strategic match (+)
2.	Market share (-) Growth of market (+)	Attractiveness of market (+/-)		
3.	Partner's experience (+/-) Partner's successfulness (+)	Alliance track record (+)		
4.	Quality of product or service (+) Innovativeness of product or service (+)	Attractiveness of product or service (+)		
5.	Technology of product or service (+) Information technology (+)	Attractiveness of technology (+)		
6.	Profitability (-) Growth of revenue (+)	Attractiveness of financial performance (+/-)		
7.	Complementarity related to the attractiveness of market (+)			

No.	Variable	Component	Sub-Factor	Factor
	Complementarity related to the strategy (+) Complementarity related to the attractiveness of resources (+)		Complementarity (+)	
8.	Pressure on continuity (+) Pressure of time on alliance (+) Alternative to cooperation (-)		Strategic importance (+)	

6.2.3 Cultural understanding

Share of communication: in the planning phase of the alliance, the share of communication between the partners and stakeholders was frequent. Thus, the share of communication was positive.

Nurture of the alliance: the partners were willing to nurture the alliance by developing, supporting, and enhancing the performance. Thus, this variable was positive.

Based on positive variable it can be concluded that the cultural understanding in the alliance during the planning phase of the IEPSA was positive. An overview is provided in table 6.16.

Table 6.16: Relationship in cultural understanding factor

No.	Variable	Component	Factor
1.	Share of communication (+)	Trust (+)	Cultural understanding (+)
2.	Nurture the alliance (+)	Commitment (+)	

6.2.4 Internal organization support

The entire stakeholder in the organizations of the alliance participated in the implementation of strategic planning. The objectives in 2007 were socialized to the stakeholder in the internal organization. Thus, the internal organization support was positive.

Table 6.17: Relationships for the internal organization support factor

Variable	Factor
Participation in the implementation of strategic planning (+)	Internal organization support (+)

6.2.5 Strategic plan

The established strategic planning consisted of a commitment to lock up the share within a long period of time, improvement human resource quality, and extension of the new technology.

Table 6.18: Relationships for the strategic planning factor

Variable	Factor
Commitment (+)	Strategic plan (+)

6.2.6 Human resource management

In the aim to build collaborative people having the characteristics of learning capability, cooperation and conflict resolution, trust, candor, communication, and commitment to the objective setting, the alliance established training centers and Learning and Management Group. The trainings were facilitated to extend the optimum potential value of every employee. This reflects a strong commitment of the alliance to continuously develop employee's potential and competency as optimal as it could, through variety of training, learning and development programs. Each program was aimed to improve employee's quality so they were able to play significant role in a competitive banking industry.

There were two main objectives considered as the focus of training and learning activities, which are:

- Improving Intellectual Capital in achieving CIMB Niaga's competitive advantage
- Developing a learning organization

The alliance provided annual climate survey to all departments to estimate the working climate. To align the alliance's objectives and employees', all employees were provided with Employee Stock Ownership Program (ESOP). Thus, the collaborative people variable was positive.

Table 6.19: Relationships for the human resource management factor

Variable	Factor
Collaborative people (+)	Human resource management (+)

6.2.7 Organizational arrangement

Flattened organization: The alliance had no activities related to flatten the hierarchy of the organization. Thus, the flattened organization was neutral.

Decentralization of decision making: the alliance decentralized its decision making to the regional area. Thus, the decentralization of decision making was positive.

Based on one neutral and one positive variable it can be concluded that the organizational arrangement during the operation phase of the IEPSA was positive. An overview of the factor and the accompanying variables is provided in table 6.20.

Table 6.20: Relationships for the organizational arrangement factor

No.	Variable	Factor
1.	Flattened organization (+/-)	Organizational arrangement (+)
2.	Decentralization of decision making (+)	

6.2.8 Management control system

Planning: Each division committed to ensure that the alliance objectives could be achieved. Thus, the planning was positive.

Control structure: The audit committee conducted process feedback on performance by auditing on the divisional performances within the alliance. The findings were reported to the remuneration committee. Thus, control process was positive.

Control process: The control process was not only focused on the divisional performance but it cascaded and deployed to the individual level. This process aligned the corporate objectives of the alliance with the organizational objectives. Thus, the control process was positive.

Based on three positive variables it can be concluded that the management control system during the operating phase of the IEPSA was positive. An overview is provided in table 6.21.

Table 6.21: Relationships for the management control system factor

No.	Variable	Factor
1.	Planning (+)	Management control system (+)
2.	Control structure (+)	
3.	Control process (+)	

6.2.9 Evolved cultural understanding

Trust: sharing of communication between partners to the organization was frequent. Thus, share of communication was positive.

Commitment: both partners nurtured the alliance which resulted in a high performance of the alliance especially on achieving its vision 2007. Thus, nurture of the alliance was positive. With the profit soared to Rp 660 billion, the performance exceeded its cost of capital of 14%. Thus, performance of the alliance was positive.

Based on the above two components which consist of three positive variables it can be concluded that the evolved cultural understanding factor during the operating phase of the IEPSA was positive. An overview is provided in table 6.22.

Table 6.22: Relationships for the evolved cultural understanding factor

No	Variable	Component	Factor
1.	Share of communication (+)	Trust (+)	Cultural understanding (+)
2.	Nurture the alliance (+) Performance of the alliance (+)	Commitment (+)	

6.2.10 Internal driver

Strategic objectives: The government partners thought that the objectives of improving performance of the alliance had been fulfilled so that it was not necessary to remain in the alliance. Due to this condition, the variable was the cause of the alliance termination.

Expectancy: The alliance actually improved its performance so that missed of expectancy was not the cause of the termination of the alliance.

Corporate leadership: There were no changes in corporate leadership so that it was not the cause of the termination of the alliance.

Thus, in terms of internal driver out of three variables, strategic objectives variable was the cause of the alliance into termination.

Table 6.23: Relationships for the internal driver factor

No.	Variable	Factor
1.	Strategic objectives (-)	Internal driver (-)
2.	Expectancy(+)	
3.	Corporate leadership (+)	

6.2.11 External driver

External environment: there were no changes in the external environment regarding the regulations and politics so that external environment was not the cause of the alliance termination.

Based on this the external driver was not the cause of the alliance termination.

Table 6.24: Relationships for the external driver factor

No.	Variable	Factor
1.	External environment (+)	External driver (+)

6.3 Additional insights

Based on description provided in section 6.1, there are a few additional insights that can be provided concerning with stakeholder support (6.3.1), internal organization support (6.3.2), and management control system (6.3.3). These additional insights are aimed to present additional perspectives and information about the IEPSA that was not covered in section 6.2 (analysis based on the model established in Chapter 3).

6.3.1 Insights on the stakeholder support

In the year 2000, government acquired Bank Niaga as one of the BTOs and planned for its privatization through IEPSA. In order to revive the bank and secure a successful privatization, the government restructured the bank prior to privatization until it improved the performance prior to

the IEPSA. The existence of company restructuring had influenced positively to the degree of internal relationship.

Motivation of budget deficit reduction in 2002 when the GDP growth was 4.5% and inflation rate of 11.88% affected negatively to the share price since the government seemed to hastily divest the bank. However, there was existence of high share price in the bourse (as the benchmarked price) due to the limited amount of shares in the bourse influenced positively to the share price of Bank Niaga.

As such, government decided of not following the high share price in the bourse but deciding the share price in accordance with the fair value of the bank which was below the share price in the bourse.

Having both high degree of internal relationship and appropriate value of share price influenced the transparency of the privatization process which afterwards influenced to the presence of stakeholder support.

Figure 6.3: Stakeholder support – adjusted

6.3.2 Insights on the internal organization support

The new owners guaranteed the internal organization stakeholder on the employment. Therefore, there were no lay-offs to be undertaken. Coupled with the existence of fit in objective to achieve vision 2007 (became 5th ranked in terms of asset number), the situation in the planning phase motivated internal stakeholder to participate in the implementation of strategic plan in such a way they were secured and enthusiastic with the IEPSA. This situation influenced positively to the internal support.

Figure 6.4: Internal organization support - adjusted

6.3.3 Insights on the strategic plan

Existence of informal meeting on strategy formulation between the two partners during prolonged discussion (from June 30 to November 11, 2012) on whether to continue the IEPSA, had encouraged the commitment which in turn affect to the successful strategic plan. This occurred since actually the strategic plan was established within a longer period of time (5.5 months compared to normally 1-2 months) and commitment had already been acquired during the period to enhance the successful strategic plan.

Figure 6.5: Strategic plan - adjusted

6.3.4 Insights on the management control system

Control structure established by the new owners was in compliance with Bank of Indonesia regulation. Likewise, it was set up in a purpose to anticipate and avoid the occurrence of past mistakes when during the economic crisis, the banking collapsed due to the non-existence of Good

Corporate Governance. All in all, planning, control structure, and control process which were in accordance with the Good Corporate Governance influenced positively to the successful management control system of the IEPSA.

Figure 6.6: Management control system - adjusted

6.4 Conclusions

In this chapter, the Bank Niaga case was described and model from chapter three was applied to measure the factors that played a role for the IEPSA.

First research question: what were the phases in the IEPSA?

The four identified phases in the literature, i.e. planning phase (10 months), formation phase (1 month), operation phase (27 months), and termination phase (1 month), could all be identified for the Bank Niaga case. Thus, the phases followed the model.

Second research question: what were the factors in the IEPSA?

During the planning phase, the IEPSA faced these conditions, i.e. stakeholder support, cultural understanding and strategic match were all positive. Thus, from both an analytical and political perspective the IEPSA could be considered attractive.

During the formation phase, the situation can also be considered positive. Positive influences on internal organization support and strategic planning were supported by positive participation in the implementation of strategic planning and positive commitment of both partners. Thus, similar to the first phase, from both analytical and political perspectives the IEPSA was desirable.

During the operation phase, the IEPSA's situation can also be considered positive. All of the factors in the analytical perspectives and cultural understanding were positive indicating the IEPSA was doing well in the operations and relationship. Positive influences on human resource management, organizational arrangement, and management control system were supported by positive related variables except neutral flattened organization.

It is quite possible that the first two phases of the IEPSA took less than one year because of the positive political and analytical situation.

With positive factor in the operation phase and positive factor in the evolved cultural understanding, it was a surprise that the IEPSA was terminated. But actually, it was due to the fulfilled strategic objectives by the local partner.

Third research question: what were the relationships between factors?

Several relationships between the factors in the model were observed:

- Stakeholder support influence on cultural understanding. The communication and socialization of the intended IEPSA was intensive to the stakeholder and was accelerated by a good relationship between management and employee in the alliance. This intensive communication and socialization was vital to express partners' commitment to the alliance and variable which positively influenced trust between partners.
- Cultural understanding influence on internal organization support. Positive influence on trust and commitment in the alliance had ensured the participation of the internal organization in the implementation of strategic planning, therefore, enhancing the internal organization support. There were no oppositions from the internal organization to the IEPSA.
- Internal organization support influence on strategic planning. Participation of internal organization support had supported the successful implementation of strategic planning.
- Human resource management influence on management control system. The alliance enhanced the quality of human resources by providing training inside and outside the alliance, especially to the foreign partner's office in Malaysia, and aligned interest between the IEPSA and employee by establishing ESOP program. Therefore, it helped implement the control process of the IEPSA and thus supported the management control system.
- Organizational arrangement influence on management control system. The alliance enhanced the organizational arrangement by delegating and thus increased the speed of decision making to the regional branches. Therefore, it helped implement the control process of the IEPSA and thus supported the management control system.
- Management control system on evolved cultural understanding. Positive management control system in the alliance had improved the performance of the alliance and thus together with the commitment and intensive communication to the stakeholder had influenced positively to the evolved cultural understanding in the alliance.

Summary of factors relationship based on the case is presented in table 6.25.

Table 6.25: Relationship of factors based on the Bank Niaga case

No.	Influencing factor	Influenced factor
1.	Stakeholder support	Cultural understanding
2.	Cultural understanding	Internal organization support
3.	Internal organization support	Strategic Planning
4.	Human resource management	Management control system
5.	Organizational arrangement	Management control system
6.	Management control system	Evolved cultural understanding

Additional insights:

There are a few additional insights gathered concerning with stakeholder support, internal organization support, strategic plan, and management control system:

- In the year 2000, government acquired Bank Niaga as one of the BTOs and planned for its privatization through IEPSA. In order to revive the bank and secure a successful privatization, the government restructured the bank until it improved the performance prior to the IEPSA. The existence of company restructuring had influenced positively to the degree of internal relationship.

Motivation of budget deficit reduction in 2002 when the GDP growth was 4.5% and inflation rate of 11.88% affected negatively to the share price since the government seemed to hastily divest the bank. However, there was existence of high share price in the bourse (as the benchmarked price) due to the limited amount of shares in the bourse influenced positively to the share price of Bank Niaga.

As such, government decided of not following the high share price in the bourse but deciding the share price in accordance with the fair value of the bank which was below the share price in the bourse.

Having both high degree of internal relationship and appropriate value of share price influenced the transparency of the privatization process which afterwards influenced to the presence of stakeholder support.

- The new owners guaranteed the internal organization stakeholder on the employment. Coupled with the existence of fit in objective to achieve vision 2007 (became 5th ranked in terms of asset number), the situation in the planning phase motivated internal stakeholder to participate in the implementation of strategic plan in such a way they were secured and enthusiastic with the IEPSA. This situation influenced positively to the internal support.
- Existence of informal meeting on strategy formulation between the two partners during prolonged discussion (from June 30 to November 11, 2012) on whether to continue the IEPSA influenced positively to the commitment which in turn affect to the successful strategic plan. This occurred since actually the strategic plan was established within a longer period of time

(5.5 months compared to normally 1-2 months) and commitment had already been acquired during the period to enhance the successful strategic plan.

- Control structure established by the new owners was in compliance with Bank of Indonesia regulation. It was set up in a purpose to anticipate and avoid the occurrence of past mistakes when during the economic crisis, the banking collapsed due to the non-existence of Good Corporate Governance. All in all, planning, control structure, and control process which were in accordance with the Good Corporate Governance influenced positively to the successful management control system of the IEPSA.

CHAPTER 7: CASE STUDY OF BANK PERMATA

In this chapter, the case study of Bank Permata is presented. Section 7.1 describes the chronology of the case while section 7.2 presents the analysis of the case study based on the framework and model gathered in chapter 3 with the factors of each of the life cycle phases in the sub-sections. Section 7.3 provides insight gathered from section 7.1. Finally, in section 7.4 the answers to the three research questions are provided.

7.1 Description of Bank Permata

Bank Permata was a state-owned bank which emerged as a result of the merger of five BTOs which were under the supervision of the State-Owned Asset Management Company/*Perusahaan Pengelola Aset* (PPA²⁷). The bank was composed of Bank Bali Tbk., Bank Universal Tbk., Bank Prima Express, Bank Artamedia, and Bank Patriot.

The five BTOs had different backgrounds. Bank Bali Tbk. was established in 1954 as a commercial bank. In 1990 the bank sold 15 million shares through the Jakarta Stock Exchange (JSX). Bank Universal Tbk. was established in 1990 as a merger of Bank Development Credit Bank Asia and Universal. In 1997, Bank Universal listed on the JSX by selling 25 million shares to public investment. Bank Prima Express was founded in 1956 as Bank Tani Nasional. In 1990, it was renamed to Bank Prima Express. Bank Artamedia was founded in 1990 as a commercial bank. It was given the status of a foreign bank in 1995. Bank Patriot was established in 1958 as a commercial bank. All the banks were owned by Indonesian conglomerates as presented in table 7.1.

Table 7.1: Owner of the banks merged as Bank Permata

No.	Name of Bank	Year of Establishment	Previous Owner
1.	Bank Bali Tbk.	1954	Djaja Ramli
2.	Bank Universal Tbk.	1990	Astra Group
3.	Bank Prima Express	1956	Wibowo Ngaserin
4.	Bank Artamedia	1990	Gramedia and Kalbe Farma Group
5.	Bank Patriot	1958	Patriot Group

²⁷PPA was established by the government on February 27, 2004 under Government Regulation No. 10 of 2004 to manage the assets of the IBRA.

The purposes and objectives of PPA are as the following:

- managing ex-IBRA assets
- restructuring and/or revitalizing of State Owned Enterprises
- conducting investment activities
- managing SOE's assets

In the merger, Bank Bali Tbk. was determined as the platform bank and all four other banks merged into the platform bank. The platform bank was the bank whose activities and standards became the foundations and bases for the other banks.

The government conducted the merger of the five banks due to the impact of economic crisis which began in 1998 that hampered the banks. This was part of the government's decision from November 22, 2001, to restructure. The merger process was commenced with the signature of Memorandum of Understanding among the Five Banks and IBRA on May 20, 2002. It was issued effectively on September 30, 2002 following the proposition of the Bank Indonesia and the Ministry of Justice and Human Rights Affair.

A description of the banking industry before the intended IEPsA is provided in section 7.1.1. The IEPsA initiation will be described in 7.1.2. The Bank Permata IEPsA was initiation process lasted from July 2004 until November 2004. The partners in the IEPsA formulated a strategic plan until March 2005 (7.1.3) and implemented this strategy (7.1.4) until the IEPsA was terminated in September 2006 (7.1.5).

7.1.1 Banking industry before the intended IEPsA

In 1999, Bank Bali Tbk. was included in the list of banks to be recapitalized and restructured with funds from the government amounting to Rp 5.36 trillion. Capital of the bank was minus Rp 1.47 trillion, CAR of minus 16.96%, and LDR of 53.01%.

Bank Universal Tbk. received recapitalization funds of Rp 4.1 trillion consisted of Rp 310 billion with fixed interest rate of 12% and 14% respectively due in 2004 and 2009, and Rp 3.8 trillion with interest rate of about 13.06% to 23.33% with time of maturity in 2002 and 2009. The capital of the Bank Universal amounted to Rp 1.35 trillion with assets of Rp 9.92 trillion, CAR 13.87% and LDR 44.61%.

Bank Artamedia was included in the list of banks to be recapitalized with an injection of funds amounting to Rp 130 billion. The scheme of the funds was composed of Rp 22 billion with an interest rate of 12% and 14% and Rp 108 billion based on interest rate of Bank Indonesia notes. The capital of the bank was Rp 95.7 million with assets of Rp 705 million, CAR 13.59%, and LDR 38.83%.

Bank Prima Express received funds amounting to Rp 533.4 billion which consisted of Rp 47 billion with an interest rate of 12% and 14% which matured in 2004 and 2009. The rest, Rp 486.4 billion, had an interest rate of 13.06% to 23.33% with time of maturity in 2002 and 2009. The capital of the bank was Rp 121.7 million, with assets of Rp 1.8 billion, CAR 6.87%, and LDR 34.02%.

Bank Patriot received funds of Rp 52 billion, including Rp 4 billion with a fixed interest rate of 12% and 14% with time of maturity in 2004 and 2009. The rest, Rp 48 billion, carried an annual interest rate of 13.06% to 23.33% with the time of maturity in 2002 and 2009. The capital of the bank was Rp 11.3 billion, with assets of Rp 232 billion, CAR of 4.87%, and LDR 17.19%.

After the merger, in October 2002, the government injected Bank Permata with the fund as much as Rp 4.6 trillion, bringing the government's ownership of 96.6% with the rests owned by public (3.4%). These money flows are summarized in table 7.2.

Table 7.2: Cost of recapitalization and government's shares at Bank Permata (IBRA, 2004)

Bank	Total Cost of Recapitalization	Cost of Recapitalization From Government	Cost of Recapitalization From Investor	Shares of Government After Recapitalization
	Rp Trillion	Rp Trillion	Rp Trillion	%
Bank Bali	5.356	5.314	0.042	98%
Bank Universal	5.063	4.098	0.965	79%
Bank Artamedia	0.165	0.130	0.035	35%
Bank Prima Express	0.584	0.531	0.053	89%
Bank Patriot	0.062	0.052	0.0010	62%
Bank Permata	4.600	4.600	0	96.6%

In May 2002, the five banks signed an agreement. The merger became legally effective in September 2002 with the approval from the Bank of Indonesia and the Minister of Justice. By placing a capital of Rp 4.6 trillion consisting of cash amounting to Rp 2.8 trillion and Rp 1.8 trillion of bonds with fixed interest rate, the government had 96.6% of Bank Permata and public ownership held the remaining 3.4% of stakes.

Bank Artamedia, which was assigned as the pilot project, completed the integration from its previous entity to Bank Bali as the platform bank of Bank Permata in October 2002. This was followed by Bank Prima Express, Bank Universal and Bank Patriot in the next month until the merger was completed in late 2002.

The newly merged bank, Bank Permata, had the following financial characteristics. Based on the financial statements in 2002, Bank Permata had a capital of Rp 1.16 trillion, assets valued of Rp 28.03 trillion and outstanding loans of Rp 7.19 trillion with a CAR of 10.4% (above the 8% minimum level set by the central bank), and 40.5% of LDR. A year after the merger, Bank Permata reported a profit of Rp 503 billion. At the time, Bank Permata had 328 branches throughout Indonesia.

Table 7.3: Key Financial Indicators of Bank Permata

Financial Position (in Rp trillion)	31/12/2002	31/12/2003
Total Asset	28.03	28.98
Total Deposit	21.89	23.79
Total Equity	1.16	1.71
Total Loans	7.19	9.69
Net Profit (Loss)	(0.81)	0.53
Recap Bond	11.69	10.25
Key Ratios (%)		
CAR	10.40	10.78
ROA	(4.75)	1.88
ROE	(153.50)	62.59
LDR	40.50	41.13
NIM	2.40	4.38
NPL	27.20	11.00
IBRA Ownership	96.6	96.6

In 2004, Bank Permata was the seventh top-bank in Indonesia in terms of number of assets as presented in table 7.4.

Table 7.4: The top banks in Indonesia (2004)

Rank Asset	Bank	Government	Private	Public	Foreign	Total Asset (Rp Trillion)
1.	Bank Mandiri	69.19 %	-	30.81 %	-	248.16
2.	Bank Central Asia	8.56 %	5.20 %	35.24 %	51 %	131.05
3.	Bank BNI	99.11 %	-	0.89 %	-	136.5
4.	Bank BRI	58.93 %	-	41.07 %	-	101.7
5.	Bank Danamon	25%	-	24%	51%	58.8
6.	Bank International Indonesia	22.5%	-	26.3%	51.2%	35.8
7.	Bank Permata	96.6%	-	3.4%	-	31.8
8.	Bank Niaga	21.53%	-	27.47%	51%	30.8
9.	Bank BTN	100 %	-	-	-	25.6

7.1.2 The IEPSA initiation: July to November 2004

The reason to establish an IEPSA was a Letter of Intent between the government of Indonesia and the IMF. The objective was to help the Indonesian economy out of the crisis by restructuring the banking industry by having prior privatization plan, restructurization, and afterwards the divestment of the taken over banks which included Bank Niaga (chapter six), Bank International Indonesia (chapter eight), Bank Central Asia (chapter nine), as well as Bank Permata²⁸.

²⁸ Note that there is a different time period for Bank Permata compared to Bank Niaga. This is due to how they were affected by the economic crisis. Bank Niaga was affected in 1999 and Bank Bali (as the Platform Bank of Bank Permata) was affected in 2001. Therefore, the time of IEPSA initiation was also different

Bidding process

The process was initiated by having a mass-media announcement in which the government announced its intention to sell its shares in Bank Permata in July 2004. Following the announcement, there were 22 investors that expressed their intentions to participate to PPA.

In order to evaluate the investors, PPA set up the Evaluation and Strategic Commitment Team to determine a shortlist of bidders. As shown in table 7.5 this primarily related to expected quality and commitment.

Table 7.5: The evaluation team and its task on the first stage of bidding

No.	Team	Task
1.	Evaluation	Screening investors based on experiences on strategic alliances, financial capability. In case of consortium, it should be led by a commercial bank
2.	Strategic commitment	Analyzing the commitment to the alliance and development of banking industry in Indonesia

Thus, the first stage of the bidding process was related to determining the quality and commitment of bidders which had expressed their interest to participate in the process. This evaluation was determined based on the experiences with strategic alliances, financial capability, and how commitment was expressed. The bidders submitted PPA with documents which included strategic alliance experiences, financial performance, bid price, and an expression of their commitment to the alliance.

At the end of this first stage, eight shortlisted bidders prevailed as presented in table 7.6. The bid price that they had submitted became the minimum value for the final bid offer in the second stage.

Table 7.6: Shortlisted investors of Bank Permata's IEPsA

No.	Investor	Country
1.	Bank Mandiri and Bank Buana Consortium	Indonesia
2.	Maybank	Malaysia
3.	Commerce Asset	Malaysia
4.	Standard Chartered Consortium	England, Indonesia
5.	Bank Panin	Indonesia
6.	Barclay-Bank Danamon	England, Indonesia
7.	Bank Rakyat Indonesia	Indonesia
8.	United Overseas Bank	Singapore

Next, the shortlisted bidders carried out a due diligence process from August to September 2012. After this the second stage, i.e. a bidding process, took place to determine the preferred bidder. Having completed the due diligence, the bidders submitted to the PPA more detailed documents on Price, Technical Aspects, Business Plan, Fit and Proper Test documents, and SPA terms.

For this stage the PPA set up the Evaluating Bid and SPA team as well as Fit and Proper Test Team with the specified tasks provided in table 7.7. The Evaluating Bid and SPA team assessed the technical aspects, prices, and terms in SPA offered by the bidders. They are composed of PPA and the independent evaluator. The Fit and Proper Test team was Bank of Indonesia which assessed the capability of the bidders.

Table 7.7: The evaluation team and its task on the second stage of bidding

No.	Team	Task
1.	Evaluating Bid	Evaluating the final bid consisting of technical aspects, business plan, and floor price ²⁹
2.	Evaluating SPA	Evaluating the terms in the SPA
3.	Fit and Proper	Conducting the Fit and Proper Test

After evaluating the documents and SPA terms, the PPA concluded that Standard Chartered Consortium (Stanchart Consortium) was the preferred bidder³⁰. The Stanchart Consortium was composed of Standard Chartered Bank (Stanchart) and Astra International Indonesia (Astra), English and Indonesian companies. The consortium was subject to the process of the Fit and Proper Test which was conducted by Bank of Indonesia. The Stanchart Consortium passed the test. As such, PPA announced as the final result that Stanchart Consortium was the winning bidder.

On November 11, 2004 the Government of Indonesia announced that they had sold 51% of the shares in Bank Permata to the Stanchart Consortium. The SPA was signed on that date between PPA as a proxy of the Ministry of Finance of the Republic of Indonesia which owned the bank's share with the Stanchart Consortium. Of the remaining shares, 45.6% were owned by government via PPA and the rests (3.4%) were owned by the public. The terms of SPA consisted of:

1. Commitment of Stanchart Consortium to improve and enhance the performance of Bank Permata
 2. Commitment to support the banking industry in Indonesia
 3. Commitment to refrain from selling the shares of Bank Permata within three years after the SPA
- Ownership structure of the alliance is provided in figure 7.1.

²⁹ It is the lowest share price that shares can be sold at

³⁰ This means that other bidders were for the time being dismissed. However, if Stanchart Consortium failed the Fit and Proper Test, then PPA would ask another (second ranked) bidder to increase the price to Stanchart's bid and would request of the Bank of Indonesia to examine documents for another Fit and Proper Test.

Figure 7.1: Ownership structure of Bank Permata after IEPSA

The process was considered by the stakeholder (house of representatives and society) as transparent since there were no issues on the share price and internal organization of Bank Permata seemed to support the IEPSA which was solidified by the prior restructurization plan.

The alliance partners

Bank Permata's competitive advantage was its loans for small and medium enterprises, commercial, and retail segments which had become a vibrant force in the retail banking segment. This contributed to the increased profit of Rp 558.1 billion. As of December 2004, the bank's CAR was 11.48% which was a slight improvement from 10.8% in 2003, and above Bank Indonesia's requirement of 8%. Aside from CAR, the profitability ratios were also positive. Net interest margin (NIM) rose from 4.4% to 5.8%, while ROA and ROE were 2.3% and 42.7% respectively as of December 31, 2004.

In terms of innovativeness, Bank Permata had developed business activities which were responsive to increasing market demand. It had re-mapped activities ranging from new business strategies composed of nine operational aspects, it relocated branches to more strategic locations, and it formed a center of national operations that supported integrated administrative and operations activities of the bank all over Indonesia. Nine operational aspects were distinguished: Customer, Customer Relationship Management, Brand, Distribution Channel, Service, Product, Human Resource Management, Risk Management, and Acquisition.

The Stanchart Consortium served consumer wholesale banking customers (Annual Report of Stanchart, 2004). Standard Chartered had alliances in Africa, America, United Kingdom, Middle East, South Asia, Hong Kong, and Singapore. Both partners' services were consistent with the trend

of banking industry in Indonesia which had shifted the target loan from corporate to consumer banking after the crises. The local partner of the Stanchart Consortium, Astra, was one of Indonesia's largest diversified conglomerates in Indonesia. Over the years Astra had grown and become the largest automotive distributor and producer in Indonesia partnering with Japanese automakers such as Toyota, Daihatsu and Isuzu. Astra had expanded its business lines not only in automotive related businesses and had six core businesses: Automotive, Financial Services, Heavy Equipment, Agribusiness, Information Technology and Infrastructure. A number of strategic alliances with leading global players in various industries had been established.

Technology

Bank Permata had a competitive advantage in banking technology inherited from the merger with Bank Bali (Annual Report of Bank Permata, 2003). Bank Permata used one of the leading banking system technologies enabling the bank to implement banking platforms which were compatible with other system in banking industries as well as non-banking institution (Annual Report of Bank Permata, 2003). On this unique feature rested not only the capability to expand delivery channels to non-banking institution whenever required but also to support the bank's operations in compliance with risk management as it connected all activities within the bank's value chain. Bank Permata's electronic banking was one of the most comprehensive in Indonesia consisting of mobile banking, call centers, debit cards, internet banking, and electronic payment services. Standard Chartered, as one of the biggest banks in the world provided the uses of advanced technology to secure and safe way of banking from anywhere. It had sophisticated information technology connecting 33,000 people in over 550 locations serving 56 countries and territories across Asia Pacific region, South Asia, Middle East, Africa, United Kingdom and Americas (Annual Report of Stanchart, 2004).

Capital need

In 2004, the financial performance of Bank Permata had improved compared to that before the merger. After a loss of Rp 808 billion in 2002, it posted net profits of Rp 558 billion and Rp 623 billion in 2003 and 2004, respectively. Nevertheless, Bank Permata required capital to grow to achieve its vision to be an outstanding and professional financial service provider that built deep relationships with customers and delivers consistently compelling customer experiences.

Growth in banking loan markets in Indonesia during 2004 was among the highest in the Asia Pacific region. Thailand had the highest growth of over 200 percent, Indonesia at the next order with figures of 150 percent compared with the previous year with Taiwan as the third order with about 130 percent expansion (Bank of Indonesia, 2004). This high growth was attributed by the

increasing customer confidence index reflected by improving customer expectation index and stabilized economic condition; increasing GDP and decreasing interest rate (Bank of Indonesia, 2004).

Strategies

Bank Permata's vision was to be an outstanding and professional financial service provider that builds deep relationships with customers and delivers consistently compelling customer experiences. Bank Permata set its focus on the SME, commercial, and retail banking segments and became a vibrant force in the retail banking market in Indonesia especially with the arrival of the new shareholders (Annual Report of Bank Permata, 2004).

The strategic intent of the Stanchart Consortium was to be the world's best international bank, leading the way in Asia, Africa and the Middle East and to be the market leader in the growing Indonesian automotive industry.

Healing from the economic crisis, Indonesia's banking industry was developing with a lot of opportunities in the market. Stanchart Consortium believed in the Indonesian economic development, especially its potential market. It was committed to form a long-term alliance with Bank Permata and was willing to inject additional capital into Bank Permata.

The economic environment and share price

Since the Asian crises in the 1990s, 2004 was the best year in terms of the macro economy for Indonesia. GDP growth was 5.1%, an increase from 3.69% in 2002 and 4.1% in 2003. The growth was driven by consumption, especially private consumption supported by unsecured loans provided by banks and multi finance companies as interest rates continued to decrease (Annual Report Bank Permata, 2004). Rupiah strengthened and was relatively stable over the year at Rp 9,290 per US\$, a decrease in value from 8,940 in 2002 and 8,465 in 2003 with the fluctuation ranged from 5% to 9%. Inflation rate was 6.1%, it was lower than 11.46% in 2002 and slightly higher than that of the 2003 which was 5.83%.

By the time of SPA, there was intention of the government to reduce the budget deficit. At the time, share price in the bourse was high and the government set the floor price of the estimated 3 PBV. As the winning declared with the selling price of 3.18 PBV (based upon the financial report in December 2003), Government of Indonesia earned Rp 2.77 trillion and therefore gained Rp 0.75 trillion above the fair value of Rp 2.02 trillion. This IEPsA was historically the best price among IEPsAs in Indonesia.

Table 7.8: Share price of Bank Permata from July to November 2004

No.	Month	Share Price	Situation
1.	July 2004	Rp 900	Invitation to prospective partners
2.	August 2004	Rp 950	Due diligence
3.	September 2004	Rp 950	Due diligence
4.	October 2004	Rp 970	The SPA was signed between government and new partner
5.	November 2004	Rp 1,200	Announcement of the new owner

Table 7.9: Comparison between selling share price and fair value of Bank Permata

No.	Item	Selling Price	Fair Value
1.	Price to Book Value	3.18	2.31
2.	Amount of 51 % share of equity	Rp 2.77 trillion	Rp 2.02 trillion

7.1.3 Setting up the IEPSA: December 2004 to March 2005

The strategy formulation was initiated by the board of directors of Bank Permata (see table 7.10) which consisted of eight directors from Indonesia and two directors from England.

Table 7.10: Board of Directors of Bank Permata

No	Name	Position	Nationality
1.	Agus D.W. Martowardojo	President Director	Indonesia
2.	J. Georgino Godong	Managing Director	Indonesia
3.	Ongki W. Dana	Director of Wholesale Banking	Indonesia
4.	Elvyn G. Masassya	Director of Compliance	Indonesia
5.	Daryl Morton	Director of Investment	English
6.	Mahdi Syahbuddin	Director of Operations	Indonesia
7.	Iman A. Zahiruddin	Director of Retail banking	Indonesia
8.	Julius Aslan	Director of Human Resource	Indonesia
9.	Hans Theikuhl.	Director of Finance	English
10.	Andrew Hanubrata	Director of Commercial Banking	Indonesia

The new vision and mission was developed by the President Director assisted by the Managing Director and discussed with the other Directors. In terms of strategy formulation, it was initiated by the Director of Operations, Retail Banking, Commercial Banking, Wholesale Banking, and Human Resources. The functional strategies along with the assigned activities were developed based on the discussions among directors. These functional strategies were aligned with the corporate and the competitive strategies as well as with the vision and mission of Bank Permata. The developed strategies and activities were reported to the Board of Commissioners which consisted of seven Indonesian and three English representatives as in table 7.11. Three of the Indonesian representatives were independents in accordance with the Bank of Indonesia's requirement that Indonesian Banks have independent commissioners. Three other representatives were from the government representing the ownership in Bank Permata.

Table 7.11: Board of Commissioners of Bank Permata

No.	Name	Position	Representation	Nationality
1.	Mulia P. Nasution	President Commissioner	Government	Indonesia
2.	Rachmat Saptaman	Commissioner	Government	Indonesia
3.	Lukita Dinarsyah Tuwo	Commissioner	Government	Indonesia
4.	Mark Hansen	Commissioner	Stanchart Consortium	English
5.	Vincent Plant	Commissioner	Stanchart Consortium	English
6.	Brian Keelan	Commissioner	Stanchart Consortium	English
7.	Gunawan Geniusahardja	Commissioner	Stanchart Consortium	Indonesia
8.	Tirta Hidayat	Commissioner	Independent	Indonesia
9.	Deswandhy Agusman	Commissioner	Independent	Indonesia
10.	Chandra Purnama	Commissioner	Independent	Indonesia

The strategic planning was set up as presented in table 7.12. It was based on organic development, implementation of Good Corporate Governance, a lock-in of the Stanchart Consortium (the consortium was not allowed to sell its shares for three years), improvement of human resource quality, and to have an extension of the technology in particular in the IT (Annual Report of Bank Permata, 2004). The bank's long-term plan was to (Annual Report of Bank Permata, 2004):

1. Focus on Small and Medium Enterprises (SME) and consumer segments.
 - SME business: Maintain the SME segment and selectively replicate the value chain model in 2-3 key industries with priority on export oriented sectors.
 - Consumer: Expand the consumer portfolio by continuing aggressive growth in mortgage and car loans and also invest for growth in credit card business.
2. Increase fee based income through cross selling of appropriate products.
 - Appropriate investment products and bank assurance products for retail consumers.
 - Trade finance products for SME customers and FX in existing customer base.
 - Regularly launched innovative bundled products to improve cross selling.
3. Improve operational efficiency
 - Increase the low cost funding ratio, optimize the branch network and improve employee productivity through appropriate initiatives such as training and performance incentive programs.
4. Continue to strengthen key capabilities
 - Enhance the SME and Branch Sales Model, strengthen risk management capabilities and continue to develop and retain human capital
 - Establish a data warehouse for knowledge based management to be able to generate credit and sales analytics and micro segmentation of the portfolio.

Table 7.12: Strategy components of Bank Permata in 2004

No.	Strategy components	Description
1.	Vision	To be an outstanding and professional financial service provider that builds deep relationships with customers and delivers consistent compelling customer experiences.
2.	Mission	<ul style="list-style-type: none"> • To conduct our business prudently and sustainably in order to create optimum value • To provide our customers with high quality products and services with integrity and professionalism • To equip our employees with the required skills as well as reward their excellent performances • To serve our customers with high quality products and services and strive to become a role model in the best practice of Good Corporate Governance in banking industry
3.	Corporate Strategy	Growth strategy by expanding possibilities for better services and embarking on a number of product developments that solidify prominent position in the growing retail banking market in Indonesia
4.	Competitive strategy	Friendly and personalized services to enhance position as the leading retail bank in Indonesia that provides ultimate customer experience in banking services. Focus on Small and Medium Enterprises (SME) and consumer segments.
5.	Functional Strategy	<ul style="list-style-type: none"> • Increase fee based income through cross selling and appropriate products. • Improve operational efficiency • Continue to strengthen key capabilities
6.	Activities	<ul style="list-style-type: none"> • SME business: Maintain SME segment and selectively replicate value chain model in 2 to 3 key industries prioritized in export oriented sectors. • Consumer: Expand consumer portfolio by persistent aggressive growth in mortgage and auto loans and also invest in growing credit card business. • Appropriate investment and bank assurance products for retail consumers. • Provide trade finance products for SME customers and foreign exchange for existing customer. • Regularly launch innovative bundled products to improve cross selling. • Increase low cost funding ratio optimized branch network and improve employee productivity through appropriate initiatives such as training and performance incentive program. • Enhance SME and Branch Sales Model, strengthen risk management capabilities and continued to develop and retaining human capital • Establish data warehouse as the bases of analysis to generate loan for micro segment.

The arrival of new shareholders, Stanchart Consortium, was aimed to solidify Bank Permata by synergizing resources and activities. The fit in objective occurred as the commitment of the new shareholders was reflected in the strategic direction that they would like to see Bank Permata improve in 2005. This had an emphasis on internal consolidation to strengthen the infrastructure in support of long-term objectives and thus guarantee on employment was provided. Internal consolidation was reflected in activities which support the bank's functional strategy with the aim of providing outstanding and professional financial service. This included activities related to corporate governance, risk management, information technology, and personnel development of a number of business units which were strategic to the bank's long-term growth such as treasury,

international banking, retail banking, and transactional banking to increase fee-based income. The alliance was also aimed to solidify its leadership in automotive banking.

The management and the employees supported the implementation of strategic planning. According to the commissioner “Prior restructurization and merger seemed to prepare both management and employees to the intended IEPSA that had been set up by the government”.

7.1.4 Running the IEPSA: April 2005 to August 2006

Human resources

In April 2005, as the implementation of strategic planning initiated, the new owner of Bank Permata declared that rationalization was not the priority of the alliance. However, in fact, from January to March 2006, the alliance implemented a rationalization program and provided attractive pension packages to those who chose early retirement.

Bank Permata launched the Permata Assessment Center (PAC) which was considered one of the most comprehensive assessment centers in Indonesia in terms of IT, Human Resources, and facilities. Along with the launch of PAC, the alliance had set up eight behavior rules derived from the five core values of Trust, Integrity, Service, Excellence and Professionalism. Trust was founded upon goodwill, honesty and reliability. Integrity was associated with decent norms of conduct and behavior acceptable to the company, community and the principles of Good Corporate Governance. Service was equated by a performance or delivery that meets or exceeds the expectations of stakeholders. Excellence should be an ingrained quality in every Bank Permata Bankers not to accept anything less than the best. Professionalism was doing one’s job with competence, responsibility and accountability. Moreover, the alliance had facilitated a new collective labor agreement, which was effective for a two-year period. The goal was a more amicable and harmonious relationship between management and labor union. The agreement set up guidelines between employers and employees in understanding the rights and obligations.

Trust

Directors of Bank Permata enhanced the trust level through frequent socialization of vision to become the best retail bank in Indonesia. When the performance is compared to that before the bank was divested, it shows that performance was relatively stagnant as indicated with decreasing profits from Rp 623 billion to Rp 295 billion and increasing NPL from 1.6% to 3.3%.

Management of the alliance

To pursue its objective to get closer to retail consumers especially in the remote area, the bank had made alliances with regional Banks. In the automotive retail segments Bank Permata set up the alliances with automotive industries like Daihatsu, Isuzu, Nissan, Suzuki, Honda, Hyundai, Chevrolet, Mercedes, and BMW. In the remote area, geographical business units communicated each other by forming matrix organizations, i.e. Bank Permata divided its operational areas into four regions. Each business region had its own focus and emphasis which were tailored to the specific needs and characteristics of the market. The branches within the region cooperated with one another and the headquarter in Jakarta provided the financial resources and human resource management to the region

There were no significant changes in the organization hierarchy of Bank Permata since forming a strategic alliance with Standard Chartered and Astra International. The alliance provided branches with authority in finding customers, while the main office monitored the compliance and risk management of customer through the IT system. Based on this, the condition had a positive influence on the organizational arrangement of the alliance.

The regular planning consisted of annual strategic planning, long-term planning, and budget planning. Moreover, in order to align all the business units to the objective setting, the alliance had implemented the Balanced Scorecard (BSC). The BSC system provided measurable business targets and achievement parameters of financial performance, customer satisfaction, internal business processes and personal learning curve, which served as the basis for employee performance appraisal at Bank Permata. In the area of management of control system, the alliance provided rewards to the people in all levels of the organization based on merits in accordance with the achievement of key performance indicators.

The vision of the alliance was to become an outstanding and professional financial service provider, with the mission of building deep relationships with customers and delivers consistently compelling customer experiences by creating optimum value for customers and employees. Several control mechanisms had been developed in order to support the management control system. This ranged from general meetings of shareholders, an audit committee, a remuneration committee, and an executive committee. In assisting the Board of Commissioners, the Audit Committee monitored and reviewed the management and control aspects of Permata Bank, provided independent professional opinion on the report and other information submitted by the Board of Directors to the Board of Commissioners, and identified other important issues requiring the attention of the Board of Commissioners. The Remuneration Committee was responsible for evaluating the performance of the Board of Commissioners and the Board of Directors to determine the appropriate amount of

remuneration with respect to their duties and responsibilities, and monitoring the process or execution thereof. Executive committees are under the coordination of the Board of Directors, and are established to help the Board of Directors in the execution of specific duties and responsibilities of the Board of Directors. These committees comprise the Risk Management Committee, the Asset Liability Committee (ALCO), the Human Resources Committee and the Information and Technology Committee.

The control attributes provided in the previous statements were the instruments for feedback to the commissioners, BOD, top management, and management, not only in compliance with the Bank Indonesia regulation. The bank had developed a Corporate Compliance Group which reported to Compliance Director and ensured that the Bank was in full compliance with all government codes and regulatory structures. Improvements in operational oversight had also been bolstered by the continuing evolvement of the bank's risk management system that was set towards Basel II³¹ compliance. Advocates of Basel II believed that such an international standard could help protect the international financial system from the types of problems that might arise should a major bank or a series of banks collapse. Basel II attempted to accomplish this by setting up risk and capital management requirements designed to ensure that a bank has adequate capital for the risk the bank exposes itself to through its lending and investment practices. It complied with the Bank of Indonesia regulation as anticipation to avoid the occurrence of past mistake.

Performance of the alliance

Based on the data from Bank of Indonesia, the outstanding loans of Bank Permata increased 7% to Rp 23.8 trillion. It was considered low when compared with the average national growth of 25%. To maintain its high profitability, Bank Permata only increased 10% of third party deposits to Rp 28.6 trillion in anticipating the high interest in 2006. Nevertheless, the asset increased by 18.9% to Rp 37.8 trillion.

With 70% of loan provided to SMEs and 30% to consumers had resulted with the LDR of 83.1% which was above the average banking industry of 61%.

All in all, performance of the alliance in 2006 was not satisfactory. One way of concluding this was by comparing the performance of the alliance in 2006 with that before the alliance in 2004. In 2004, with third party deposits of Rp 26 trillion the bank was able to achieve a profit of Rp 623 billion, with a ROE of 42.7% and NPL of 1.6%. In 2006, as operational expenses soared, the bank had only a profit of Rp 295 billion, a ROE of 14.3% and a NPL of 3.3% (see table 7.13). This situation was due to the opportunistic behavior of the foreign partners (Stanchart and Astra) which aimed to buy

³¹Basel II is the second of the Basel Accords (now extended and effectively superseded by Basel III), which included recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision.

additional shares from the government so that in September 2006 this consortium owned 89% of the bank's shares buy burdening the cost. Therefore, the benchmarked price in the bourse was deliberately weakened to make them attractive for the consortium to buy additional shares.

Table 7.13: Indicators and performances of Bank Permata in 2004 and 2006

No.	Indicator	2004	2006
1.	Amount of assets	31.8 trillion	37.8 trillion
2.	Third party deposits	26.0 trillion	28.6 trillion
3.	Profit	Rp 623 billion	Rp 295 billion
4.	ROE	42.7%	14.3%
5.	ROA	2.3%	1.22%
6.	LDR	57.2%	83.1%
7.	NPL	1.6%	3.3%
8.	CAR	11.48%	14.4%
9.	NIM	5.8%	5.91%

7.1.5 Closing of the IEPsA: September 2006

With regard to the satisfactory performance of the alliance, on September 4, 2006, the government sold its remaining 25.9% stake in Bank Permata on the stock exchange. The release of government stocks was supported by *Peraturan Pemerintah/PP*. No.10 in 2006 on the sale of state's shares in Bank Permata and Bank Lippo due to its compelling performance. It was also the result of the House Commission XI meeting on September 28, 2005. The Government commissioned PPA to prepare the release of the remaining government shares in Bank Permata through market mechanisms. The shares were bought by the consortium of Stanchart Consortium with a price of Rp 875 per share or 2.65 PBV based on the performance in 2005. In the transaction, each of the partners in the consortium acquired 12.95% of the shares. Consequently, the consortium possessed 89% of shares in Bank Permata. This divestment was a follow-up sequence of divestments of government's shares to the stock exchange which began in December 2004 when the government sold 19.7% of shares in the stock exchange and 12.1% of shares were bought by the consortium. After the last divestment of government's shares, the ownerships of the bank 44.5% owned by Stanchart and 44.5% owned by Astra, and the rest owned by public in the bourse which was 11.0% leaving the government as the regulatory function of the banking industry.

7.2 Analysis

In this section, the model from chapter three is applied to 'evaluate' the Bank Permata IEPsA. The description provided in section 7.1 is similar to the phases identified in chapter three. It can therefore be concluded that the life cycle of the IEPsA is in accordance with the theory described in the previous chapter differentiated into a planning, formation, operation, and termination phase.

Table 7.14: Time and duration of each phase

No.	Phase	Time	Duration
1.	Planning	July to November 2004	5 months
2.	Formation	December 2004 to March 2005	4 months
3.	Operation	April 2005 to August 2006	17 months
4.	Termination	June 2008	1 month

This section provides an analysis of the presence/importance of the factors from the model, i.e. stakeholder support (7.2.1), strategic match (7.2.2), cultural understanding (7.2.3), internal organization support (7.2.4), strategic planning (7.2.5), human resource management (7.2.6), organizational arrangement (7.2.7), management control system (7.2.8), evolved cultural understanding (7.2.9), internal driver (7.2.10), and external driver (7.2.11).

7.2.1 Stakeholder support

Internal organization support: the intended privatization was socialized intensively to the stakeholders. Fine organization climate indicated by high degree of internal relationship was derived from successful prior restructurization program, one of the means through merging five different banks and reducing organization layers. Government had projected Bank Permata's privatization in 2004 and this intention was subsequently permitted by the representative. Therefore, the situation had a positive influence on the internal organization support to the intended alliance.

Society support: there was a change in the ownership structure, i.e. the government surrendered its majority stake. In fact, high degree of internal relationship had contributed to a smooth transfer of information about privatization in the bank which afterwards created transparency. Moreover, the share price had a positive influence, i.e. the price paid for shares was above the fair value, and there was transparency in the process. Thus, society support was positive.

Based on this, it can be concluded that stakeholder support for the alliance during the planning phase of the IEPSA was positive. Stakeholder support was also evidenced by absence of oppositions from labor union, management, and society. An overview is provided in table 7.15.

Table 7.15: Relationships for the stakeholder support factor

No.	Variable	Sub-Factor	Factor
1.	Company restructuring (+) Plan for privatization (+)	Internal organization support (+)	Stakeholder support (+)
2.	Change in ownership structure (-) Share price (+) Transparency of the privatization process (+)	Society support (+)	

7.2.2 Strategic match

Attractiveness of macro-economic conditions: within the last three years, GDP growths were below inflation rates while exchange rates of Rupiah to U.S. Dollar fluctuated by below 10%. Thus, GDP growth was negative and currency rate was positive.

Attractiveness of market: market share of Bank Permata was ranked eighth out of 128 banks in Indonesia. From 2003 to 2004, the growth of market was more than 10%. Based on this, market share and growth of market were negative and positive respectively. Thus, the attractiveness of market was neutral.

Alliance track record: Bank Permata had never established any alliances with foreign companies. In contrast, StanChart had engaged with a vast amount of alliances scattered in Africa, America, United Kingdom, Middle East, South Asia, Hong Kong, and Singapore with successful results. Thus, the alliance track record was neutral.

Attractiveness of product or service: the quality of product and service were fine. Besides that, Bank Permata was innovative in adapting products or services to the shifting market requirement from corporate segment to consumer and commercial segments. Thus, the attractiveness of product or service was positive.

Attractiveness of technology: Bank Permata had competitive advantage in the platform of outstanding banking technology inherited from the banks prior to the merger. It utilized one of the leading banking system technologies, enabling the bank to implement banking platforms compatible with other system in banking industries and non banking institution. Besides that, the information technology had been connected and integrated with the business process in the organization. Thus, attractiveness of technology was positive.

Attractiveness of financial performance: the ROA of 2.3% was less than WACC of 14% while growth of sales exceeded 10%. Thus, attractiveness of financial performance was neutral.

Capacity: the combination of the six components discussed above leads to the conclusion that the capacity had a positive influence on the strategic match.

Complementarity related to the attractiveness of the market: since the foreign partner's market was in the life-cycle of growing to maturity while domestic partner's was in a growth cycle, it can be concluded that this was positive for complementarity.

Complementarity related to the strategy: since both partners were following a growth strategy, it can be concluded that this was positive for complementarity.

Complementarity related to the attractiveness of resources: Both partners were able to gain benefits from each other products and services. In terms of technology, there was a plan to promote

transfer of expertise related to the consumer and small and medium enterprise segments from Stanchart and loan of car ownership from Astra. It can be concluded that the complementarity of the attractiveness of resources was positive.

Complementarity: the combination of the three variables discussed above leads to the conclusion that complementarity had a positive influence on the strategic match.

Pressure on continuity: both partners showed commitment to continue the alliance which was pledged withrefrain of selling the shares of Bank Permata in three years following the SPA. As such, the partner designated to continue or invest for long in the alliance. Thus, pressure on continuity was positive.

Pressure of time on alliance: Both partners treated the alliance as an important asset to exploit opportunity for the sake of their existences, i.e. to continue growing by grasping Indonesian market. Thus, pressure of time of alliance was positive.

Alternative to cooperation: both partners had other alternatives to forming IEPSA. For the local partner, there were many alternatives of partners to form the IEPSA. Thus, the alternative to cooperation can be considered negative.

Strategic importance: the combination of the three variables discussed above leads to the conclusion that strategic importance had a positive influence on the strategic match.

Based on this, it can be concluded that the strategic match of the two partners in the alliance during the planning phase of the IEPSA was positive. An overview is provided in table 7.16.

Table 7.16: Relationship in strategic match factor

No.	Variable	Component	Sub-factor	Factor
1.	GDP growth (-) Currency rate (+)	Attractiveness of macroeconomic conditions (+/-)	Capacity (+)	Strategic match (+)
2.	Market share (+/-) Growth of market (+)	Attractiveness of market (+)		
3.	Partner's experience (+) Partner's successfulness (+)	Alliance track record (+)		
4.	Quality of product or service (+) Innovativeness of product or service (+)	Attractiveness of product or service (+)		
5.	Technology of product or service (+) Information technology (+)	Attractiveness of technology (+)		
6.	Profitability (-) Growth of revenue (+)	Attractiveness of financial performance (+/-)		
7.	Complementarity related to the attractiveness of market (+) Complementarity related to the strategy (+) Complementarity related to the attractiveness of resources (+)		Complementarity (+)	

No.	Variable	Component	Sub-factor	Factor
8.	Pressure on continuity (+) Pressure of time on alliance (+) Alternative to cooperation (-)		Strategic importance (+)	

7.2.3 Cultural understanding

Share of communication: in the planning phase of the alliance, the share of communication between the partners and stakeholders was frequent. Thus, the share of communication was positive.

Nurture of the alliance: the partners were willing to nurture the alliance by developing, supporting, and enhancing the performance. Thus, this variable was positive.

Based on positive variable it can be concluded that the cultural understanding in the alliance during the planning phase of the IEPSA was positive. An overview is provided in table 7.17.

Table 7.17: Relationship in cultural understanding factor

No.	Variable	Component	Factor
1.	Share of communication (+)	Trust (+)	Cultural understanding (+)
2.	Nurture the alliance (+)	Commitment (+)	

7.2.4 Internal organization support

Participation in the implementation of strategic planning: prior restructurization and merger had prepared and alerted internal organization with the forthcoming IEPSA. Management and employees within the organization participated in the implementation of strategic planning. Thus, the internal organization support was positive.

Table 7.18: Relationships for the internal organization support factor

Variable	Factor
Participation in the implementation of strategic planning (+)	Internal organization support (+)

7.2.5 Strategic planning

Commitment: The partners formulated the strategic plan and were committed to its implementation.

They were committed to creating a sustainable competitive advantage and thus increasing value by providing high quality products and services through enhanced human resource capability, and in compliance with Good Corporate Governance. Besides that, the partners also pledged to lock up the share for a minimum of three years (so the foreign partner was tied not to leave the alliance within three year time). Thus, strategic planning was positive.

Table 7.19: Relationships for the strategic planning factor

Variable	Factor
Commitment (+)	Strategic planning (+)

7.2.6 Human resource management

Collaborative people: The alliance had launched PAC, considered as one of the most comprehensive assessment centers in Indonesia, and established eight behavior rules derived from the five core values of Trust, Integrity, Service, Excellence and Professionalism. Moreover, the alliance had facilitated a new collective labor agreement, aimed for amicable and harmonious relationship between management and labor union. Overall, although, there is an opportunistic behavior on the side of foreign partner related to the financial performance of the alliance, the collaborative people variable was still considered as positive.

Table 7.20: Relationships for the human resource management factor

Variable	Factor
Collaborative people (+)	Human resource management (+)

7.2.7 Organizational arrangement

Flattened organization: the alliance had no activities related to flatten the hierarchy of the organization. Thus, the flattened organization was neutral.

Decentralization of decision making: the bank had made alliances with regional banks to move closer to customer especially in the remote area. Business units communicated each other by forming matrix organizations. It was supported by the decentralization of decision making for the branches in the remote area. It created flexible organization. Thus, the decentralization of decision making was positive.

Based on one neutral and one positive variable it can be concluded that the organizational arrangement during the operation phase of the IEPSA was positive. An overview is provided in table 7.21.

Table 7.21: Relationships for the organizational arrangement factor

No.	Variable	Factor
1.	Flattened organization (+/-)	Organizational arrangement (+)
2.	Decentralization of decision making (+)	

7.2.8 Management control system

Planning: each division was committed to ensuring the achievement of objectives. Thus the planning was positive.

Control structure: the audit committee conducted process feedback on performance by auditing on the divisional performances within the alliance. The findings of these audits were reported to the remuneration committee. The alliance had set up the element of control structure and control process such as vision, mission, general meeting of shareholders, audit committee, audit committee, remuneration committee, and executive committee, and Corporate Compliance Group which reported to Compliance Director. The structure complied with the Bank of Indonesia regulation which was intended to anticipate the occurrence of past mistake. Thus, control process was positive.

Control process: the control process was not only derived from the divisional performance, rather it also cascaded down to the individual level. This process aligned the corporate objectives of the alliance with the organizational objectives. Thus, the control process was positive.

Based on three positive variables it can be concluded that the management control system during the operating phase of the IEPSA was positive. An overview is provided in table 7.22.

Table 7.22: Relationships for the management control system factor

No.	Variable	Factor
1.	Planning (+)	Management control system (+)
2.	Control structure (+)	
3.	Control process (+)	

7.2.9 Evolved cultural understanding

Trust: sharing of communication between partners to the organization was frequent. Thus, share of communication was positive.

Commitment: it was the public's allegation that the partners (Stanchart and Astra) temporarily, during 2005, led the alliance performance go down on purpose by increasing the overhead cost including the personal expenses burdening the profit which was reflected in the plunge of the share price in the bourse. Nevertheless, the partners nurtured the alliance, indicated by participation and contribution of Stanchart and Astra in the operations as well as marketing and sales activities, however it was in the objective to purchase the remaining shares of the government in September 2006 with low price since government used the price in the stock exchange as the benchmark which was drifted due to its poor performance. Thus, nurture of the alliance was positive during the operating phase. Since performance of the bank after the IEPSA deteriorated which was indicated by decreasing profitability and increasing NPL, thus, performance of the alliance was negative.

Based on the combination of the two components discussed above it can be concluded that the evolved cultural understanding factor during the operating phase of the IEPSA was neutral. An overview is provided in table 7.23.

Table 7.23: Relationships for the evolved cultural understanding factor

No.	Variable	Component	Factor
1.	Share of communication (+)	Trust (+)	Cultural understanding (+)
2.	Nurture the alliance (+) Performance of the alliance (-)	Commitment (+/-)	

7.2.10 Internal driver

Strategic objectives: the government partners thought that the objectives of improving performance of the alliance had been fulfilled so that it was not necessary to remain in the alliance. Due to this condition, the variable was the cause of the alliance termination.

Expectancy: the alliance had actually improved its performance so that inability to fulfilling the expectancy was not the cause of the termination of the alliance.

Corporate leadership: There were no changes in corporate leadership so this was not the cause of the termination of the alliance.

Thus, in terms of internal driver out of three variables strategic objectives variable was the cause of the alliance into termination.

Table 7.24: Relationships for the internal driver factor

No.	Variable	Factor
1.	Strategic objectives (-)	Internal driver (-)
2.	Expectancy(+)	
3.	Corporate leadership (+)	

7.2.11 External driver

External environment: there were no changes in the external environment regarding the regulations and politics so that external environment was not the cause of the alliance termination.

Table 7.25: Relationships for the external driver factor

No.	Variable	Factor
1.	External environment (+)	External driver (+)

7.3 Additional insights

Based on the description presented in section 7.1, there are a few additional insights that can be provided concerning with stakeholder support (7.3.1), internal support (7.3.2), human resource

management (7.3.3), and management control system (7.3.4). These additional insights are aimed to present additional perspectives and information about the IEP SA that was not covered in section 7.2 (analysis based on the model established in Chapter 3).

7.3.1 Insights on the stakeholder support

Plan for privatization was derived from government decision in 2001 and motivated by government's keen interest to acquire cash inflow from the privatization to reduce the budget deficit on the expenditure. The plan for privatization influenced the existence of company restructuring which was commenced by IBRA and later supervised by PPA prior to the IEP SA initiation.

Existence of company restructuring one of the means by merging five BTOs into new entity of Bank Permata eventually influenced positively to the degree of internal relationship inside the bank. Indeed, there was motivation from the government over budget deficit reduction in 2004. However, existing high share price in the bourse, and setting up floor price (by the government/PPA) which was in accordance with the fair value had influenced positively to the offered share price of Bank Permata.

As such, having both high degree of internal relationship and high share price, they influenced positively to the transparency of the privatization process in Bank Permata which subsequently affected to the presence of stakeholder support.

Figure 7.2: Stakeholder support – adjusted

7.3.2 Insights on the internal organization support

The new owners of Bank Permata guaranteed the employees and management on employment. Besides that they had fit in objective to develop the IEPSA. This situation enhanced the participation of the internal stakeholder in the implementation of strategic plan in such a way that they were ascertained about the occupations and motivated as well as enthusiastic with the new ownership in the IEPSA.

Figure 7.3: Internal organization support - adjusted

7.3.3 Insights on the human resource management

The motives of new owners of the IEP SA to buy the remaining government's shares in 2006 with low share price by reducing the alliance's profitability³² indicated an opportunistic behavior during the operation phase. This influenced negatively the collaborative people which subsequently influenced negatively to the questions on how the IEP SA arranged its human resource management during the operation phase.

Figure 7.4: Human resource management - adjusted

7.3.4 Insights on the management control system

Control structure established by the new owners was in compliance with Bank of Indonesia regulation. It was set up in a purpose to anticipate and avoid the occurrence of past mistakes when during the economic crisis, the banking collapsed due to the non-existence of Good Corporate

³² This happened since due to decreasing profitability, Bank Permata's share price in the bourse (as the benchmarked price) was also plunged providing the new owners with lower share price.

Governance. All in all, planning, control structure, and control process which were in accordance with the Good Corporate Governance influenced positively to the successful management control system of the IEPSA.

Figure 7.5: Management control system - adjusted

7.4 Conclusions

In this chapter, the Bank Permata case was described and the model from chapter three was applied to measure the factors that played a role for the IEPSA.

First research question: what were the phases in the IEPSA?

The four identified phases in the literature, i.e. planning phase (5 months), formation phase (4 months), operation phase (17 months), and termination phase (1 month), could all be identified for the Bank Permata case. Thus, the phases followed the model.

Second research question: what were the factors in the IEPSA?

During the planning phase, the IEPSA faced these conditions, i.e. stakeholder support was positive except change in ownership structure which was negative. Both cultural understanding and strategic match were positive. Thus, from both analytical and political perspectives the IEPSA could be considered attractive. Change in ownership structure was considered negative since the majority of ownership shifted from the government to foreign partner.

During the formation phase, the situation can also be considered positive. Positive influences on internal organization support and strategic planning were supported by positive participation in the implementation of strategic planning and positive commitment of both partners. Thus, similar to the first phase, from both analytical and political perspectives the IEPSA was desirable.

During the operation phase, the IEPSA's situation can also be considered positive. All of the factors in the analytical perspectives and cultural understanding were positive indicating the IEPSA was doing well in the operations and relationship. Positive influences on human resource management,

organizational arrangement, and management control system were supported by positive related variables except neutral flattened organization.

It is possible that the first two phases of the IEPSA took less than one year because of the positive analytical and political environment, i.e. there was support for the IEPSA.

With positive factor in the operation phase and neutral factor in the evolved cultural understanding, it was a surprise that the IEPSA was terminated. But actually, it was due to the fulfilled strategic objectives by the local partner.

Third research question: what were the relationships between factors?

Several relationships between the factors in the model were observed:

- Stakeholder support–cultural understanding. The communication and socialization of the intended IEPSA was intensive to the stakeholder which influenced positively to the trust level. Partners were willing to nurture and care of the alliance by developing, supporting, and enhancing the performance which led to a positive influence on the commitment among partners. This condition led to a positive influence on the cultural understanding.
- Cultural understanding-internal organization support. Positive influence on cultural understanding in the alliance coupled with the new owners' commitment to the alliance's objective and ensured the participation of internal organization in the implementation of strategic planning had promoted positive influence on the internal organization support.
- Internal organization support-strategic planning. Participation of internal organization support had supported the successful implementation of strategic planning.
- Human resource management-management control system. The alliance enhanced the quality of human resources partners by launching PAC, set up eight behavior rules derived from the five core values of Trust, Integrity, Service, Excellence and Professionalism, and facilitated a new collective labor agreement. Therefore, it helped implement the control process of the IEPSA and thus supported the management control system.
- Organizational arrangement-management control system. The alliance enhanced the organizational arrangement by delegating and thus increased the speed of decision making to the regional branches, initiated alliances with regional banks, set up the alliances with automotive industries, provided branches with authority in finding customers, implemented the BSC, and set up control structure and process. Therefore, it helped implement the control process of the IEPSA and thus supported the management control system.
- Management control system-evolved cultural understanding. Positive management control system in the alliance had improved the performance of the alliance and thus together with the

commitment and intensive communication to the stakeholder had influenced positively to the evolved cultural understanding in the alliance.

Summary of factors relationship based on the case is presented in table 7.26.

Table 7.26: Relationship of factors based on the Bank Permata case

No.	Influencing factor	Influenced factor
1.	Stakeholder support	Cultural understanding
2.	Cultural understanding	Internal organization support
3.	Internal organization support	Strategic Planning
4.	Human resource management	Management control system
5.	Organizational arrangement	Management control system
6.	Management control system	Evolved cultural understanding

Additional insights:

There are a few additional insights gathered concerning with stakeholder support, internal organization support, human resource management, and management control system:

- In Bank Permata, plan for privatization which was in accordance with the government decision in 2001 had motivated the government to obtain cash inflow from the privatization in the aim to reduce the budget deficit on the expenditure. The plan for privatization influenced to the existence of company restructuring commenced by IBRA and later supervised by PPA until the preparation of IEPSA.

Existence of company restructuring by merging the five BTOs into Bank Permata eventually influenced positively to the degree of internal relationship inside the bank. Indeed, there was motivation from the government over budget deficit reduction in 2004. However, existing high share price in the bourse, and setting up floor price (by the government/PPA) which was in accordance with the fair value influenced positively to the share price of Bank Permata.

As such, having both high degree of internal relationship and high share price, they influenced positively to the transparency of the privatization process in Bank Permata which subsequently affected to the presence of stakeholder support.

- The new owners of Bank Permata guaranteed the employees and management on employment. Besides that they had fit in objective to develop the IEPSA. This situation enhanced the participation of the internal stakeholder in the implementation of strategic plan in such a way that they were ascertained about the occupations and motivated as well as enthusiastic with the new ownership in the IEPSA.

- The motives of new owners of the IEPSA to buy the remaining government's shares in 2006 with low share price by reducing the alliance's profitability³³ indicated an opportunistic behavior during the operation phase. This influenced negatively the collaborative people which subsequently influenced negatively to the questions on how the IEPSA arranged its human resource management during the operation phase.
- Control structure established by the new owners was in compliance with Bank of Indonesia regulation. It was set up in a purpose to anticipate and avoid the occurrence of past mistakes when during the economic crisis, the banking collapsed due to the non-existence of Good Corporate Governance. All in all, planning, control structure, and control process which were in accordance with the Good Corporate Governance influenced positively to the successful management control system of the IEPSA.

³³ This happened since due to decreasing profitability, Bank Permata's share price in the bourse (as the benchmarked price) was also plunged, providing the new owners with lower share price.

CHAPTER 8: CASE STUDY OF BANK INTERNATIONAL INDONESIA

In this chapter, the case study of Bank International Indonesia is presented. Section 8.1 describes the chronology of the case while section 8.2 presents the analysis of the case study based on the framework and model gathered in chapter 3 with the factors of each of the life cycle phases in the sub-sections. Section 8.3 provides insight gathered from section 8.1. Finally, in section 8.4 the answers to three research questions are provided.

8.1 Description of Bank International Indonesia

PT. Bank Internasional Indonesia Tbk. (BII) was established on May 15, 1959 and licensed as a foreign exchange bank in 1988. It issued an Initial Public Offering in 1989 at Jakarta Stock Exchange and Surabaya Stock Exchange (now known as Indonesia Stock Exchange). BII was one of the biggest private banks in terms of assets. The owner of the bank was a prominent conglomerate of the Sinar Mas Group (Sinar Mas), established in 1962 and led by a Chinese Indonesian tycoon: Eka Tjipta Widjaja.

Sinar Mas had four core businesses including pulp and paper, agriculture, food, real estate development and financial services. BII was linked to the pulp and paper industry, which was led by the Asia Pulp & Paper Co., Ltd. (APP). APP was one of the world's top ten corporations in paper making, with overall assets of over US\$ 10 billion, and an annual production and processing capacity of more than 10 million tons.

The corporate culture of the BII bank was characterized by family relationships which reflected the low degree of internal relationship. Furthermore, there was special treatment of managers and employees who were Chinese, i.e. they had the same ethnicity as the owner.

The late 1990s Asian financial crisis wrought much havoc upon the Indonesian banking industry. Many Indonesian banks struggled with seemingly insurmountable amounts of non-performing loans and rising prospects of liquidation. BII was no exception to this. In 1999, the bank was recapitalized and restructured by the government as a recapitalized bank. It was transferred to the Indonesian Bank Restructuring Agency (IBRA) in July 2001 as a “Bank under Surveillance” and a Bank Take Over (BTO).

This section follows the chronology of the case. A description of the banking industry before the intended IEPSA is provided in section 8.1.1. The initiation of the intent for an IEPSA was in July 2003. The bidding process was undertaken until the SPA was reached on November 16, 2003. This

will be discussed in 8.1.2. The partners in the IEPSA formulated the strategic plan until March 2004 (8.1.3) and implemented the strategy (8.1.4) until the IEPSA termination in November 2006 (8.1.5).

8.1.1 Banking industry before the intended IEPSA

In the beginning of restructuring, the Capital Adequacy Ratio (CAR) of BII was 4% below Bank of Indonesia's minimum CAR requirement of 8%. The case had become complicated since the government had three roles with regard to BII:

- It was part owner of BII (56.5 percent of share). As the owner, the government had to spend around Rp 7.7 trillion to BII, which was to recapitalize the bank of Rp 6.3 trillion (56.5 percent of the cost of recapitalization of Rp 11.114 trillion) plus Rp 1.4 trillion for interbank payment of bills.

Table 8.1: Cost of recapitalization and government's shares at BII (IBRA, 2004)

Bank	Total Cost of Recapitalization	Cost of Recapitalization From Government	Cost of Recapitalization From Other Investors	Shares of Government After Recapitalization
	Rp Trillion	Rp Trillion	Rp Trillion	%
Bank BII	11.114	6.28	4.486	56.5

- It was a lender to Sinar Mas, the parent company of BII. Sinar Mas had debt to BII. This debt accounted for 62 percent of the bank's total outstanding loans. As a lender to Sinar Mas, the government was concerned with restructuring the loan in order to obtain the maximum return. The debt restructuring was signed in March 2001 among IBRA, Sinar Mas, and BII. But, Sinar Mas failed to pay for the interest liability of about US\$ 60 million which was due at the end of June 2001. Since the Sinar Mas loan accounted for 62% of BII's outstanding loans, this would potentially deteriorate the performance of BII. Moreover, in September 2001, there was a principal debt maturity to BII (about 2.5 percent from US\$ 1.2 billion) out of Sinar Mas' total debt of US\$ 1.3 billion. In addition to loan problems to Sinar Mas, BII had two other problems. First, in order to increase the low CAR, BII needed around Rp 2 trillion to Rp 3 trillion to raise its CAR to over eight percent confirming the minimum standard requirement set by the Bank of Indonesia. Second, interbank claims which amounted to Rp 1.4 trillion.
- It was the guarantor of depositors' funds (blanket guarantee). As the guarantor of depositors' funds, the government was very much concerned about depositors losing faith in the bank. This was a concern because evidence from previous years of economic recession suggested that failure of a prominent bank could have had a chain reaction leading to failures of other banks.

This was predominantly due to the decline of public confidence in the economy. Thus, each time the loan of BII to debtors reached maturity (especially Sinar Mas), the public expected that it was free of problem. Otherwise, it would be probable that customers/depositors would move their funds out of BII. This led the government to overcome depositors' funds by injecting additional funds up to Rp 27 trillion. The provision of the loan to Sinar Mas was a violation act on the Legal Lending Limit. In the fourth quarter of 2000, BII began to stagger as an impact of complications in APP. Since March 2001 the performance of APP deteriorated and it was declared unable to pay its obligations and requested for debt restructuring.

In 2001, the financial performance of BII was bad; NPL reached 60 percent, CAR was minus 47 percent. As the condition of the bank deteriorated, eventually, the government took a higher stake in BII by injecting additional funds of Rp 4.74 trillion. This made BII one of the BTOs with a 93.69% ownership by the government.

Following this, are structuring program undertaking by IBRA for financial and debt restructuring, of BII had been successful. This was reflected in the bank's financial statements as of December 2002. The bank posted a net profit of Rp 128 billion, and had improved financial ratios such as CAR, NPL and LDR, respectively 33.21%, 9.02%, and 20.04%. The debt restructuring was paid by the government through a swap between the injection of funds through recapitalization bond and ownership in the bank. For details of the Key Financial Indicators from December 1999 to December 2002, see table 8.2.

Table 8.2: The progress of BII's Key Financial Indicators

Financial Position	In trillion Rp			
	31/12/99	31/12/00	31/12/01	31/12/02
Total Asset	40.19	37.21	30.75	36.34
Total Deposit	26.10	28.78	24.99	29.50
Total Equity	1.94	2.34	(2.20)	2.98
Total Loans	11.81	18.99	8.92	5.82
Net Profit (Loss)	(2.09)	0.27	(4.13)	0.13
Recapitalization Bond	6.63	6.46	19.,86	23.45
Key Ratio (%)				
CAR	4.43	7.57	(47.42)	33.21
ROA	(5.55)	0.69	(9,73)	0,39
ROE	(62.09)	12.51	(3.790,78)	4.45
LDR	45.33	65.99	34.94	19,72
NIM	(3.14)	2.32	0.32	(0,15)
NPL	53.10	22.34	61.88	9,02
IBRA Ownership	57.14	56,78	56,68	93,69

Table 8.3 presents the top banks in Indonesia in terms of assets. The largest bank was Bank Mandiri, a SOE bank which resulted from the merger of four previously SOE banks; Bank BDN, Bapindo, Bank Bumi Daya (BBD), and Bank Export Import (Exim).

Table 8.3: Top banks in Indonesia (2003)

Rank of Asset	Bank	Gov't	Private	Public	Foreign	Total Assets (Rp Trillion)
1.	Bank Mandiri	69.19 %	-	30.81 %	-	249.0
2.	Bank Central Asia	8.56 %	5.20 %	35.24 %	51 %	133.3
3.	Bank BNI	99.11 %	-	0.89 %	-	132.3
4.	Bank BRI	58.93 %	-	41.07 %	-	94.7
5.	Bank Danamon	10%	-	24%	66 %	52.7
6.	Bank International Indonesia	93.69%	-	6.31%	-	34.7
7.	Bank BTN	100 %	-	-		27.0
8.	Bank Lippo	47.95%	-	-	52.05%	26.5
9.	Bank Niaga	27.98 %	-	21.02%	51%	23.7

Adapted from each bank's annual report

8.1.2 The IEP SA initiation: July to November 2003

The reason to establish an IEP SA was a Letter of Intent between the government of Indonesia and the IMF to establish a privatization plan. The objective was to help the Indonesian economy out of the crisis through privatization of SOEs including BTOs by having prior restructuring.

Bidding process

As a result of restructuring and injection of fund from the government as a bail-out of the bank, the financial performance of BII in the first semester of 2003 improved (BPPN, 2004). After the injection of funds, the result was quick because the bank posted a net profit of Rp 143.1 billion, total assets of Rp 34.5 trillion, CAR of 25.88 percent, and NPL of 4.96%.

Based on this improvement, in July 2003 the government intended to sell 51% of the shares in BII (which was managed by IBRA) to prominent commercial banks. IBRA chairman, Syafruddin Tumenggung (Suara Merdeka, 2003) said that the government needed a strategic investor who was capable of running a banking business in Indonesia preferably with minimum rating of BB. In order to support this divestment process, IBRA appointed ABN AMRO as a financial advisor and Hadiputranto, Hadinoto and Partners as legal advisors.

On July 9, 2003, the representatives provided permission to the government to divest its shares in BII for up to 71%. Fifty-one percent through an IEP SA and 20% through a public offering (stock exchange). In August 2003, IBRA announced this intention through mass-media and conducted marketing communications to various countries. Subsequently, twenty seven prospective investors, both foreign and domestic, expressed their interest to buy the government's shares in BII. At this stage, IBRA screened the investors based on their experiences with strategic alliances, their

financial capability, and their commitment to the alliance and the development of the banking industry in Indonesia. In situations with a consortium, the consortium had to be led by a commercial bank with at least a BB rating according to Standard & Poor's ratings and possessing a minimum 50% of voting rights.

Table 8.4: The evaluation team and its task on the first stage of bidding

No.	Team	Task
1.	Evaluation	Screening investors based on experiences on strategic alliances, financial capability with at least a BB rating. In case of consortium, it should be led by a commercial bank
2.	Strategic commitment	Analyzing the commitment to the alliance and development of banking industry in Indonesia

Following the first stage, in September 2003 IBRA nominated three prospective bidders:

- Sorak Financial Consortium (Sorak Consortium); this was composed of Kookmin Bank of South Korea, Temasek Holding of Singapore (Temasek), the Barclay Bank from the UK, and the International Commercial Bank Financial Holding Group of Malaysia.
- Bank Panin Consortium (Panin Consortium); this consisted of Bank Panin from Indonesia, Raffeisen Zentralbank Osterreich (RZB) of Austria, and Fleur Investment Enterprises of UK.
- United Overseas Bank (UOB) of Singapore.

UOB withdrew because of no clear reasons. This left a second stage competition between the Sorak Consortium and the Panin Consortium. From September to October 2003, the two consortiums conducted due diligence. They submitted their final bids on October 27, 2003 containing the technical aspects, price, and the term of SPA.

With regard to the fit and proper test, it was evaluated by fit and proper test team conducted by Bank of Indonesia. The evaluation of bids covered the technical aspects which consisted of the resources; finance, human resource, IT, and experiences. The price was assessed by the evaluating bid team which compared the offering prices between the consortium's offer and with the stock's share price as well as the floor price to secure the amount of money acquired by the government to reducing the budget deficit. The terms of the SPA were evaluated by the evaluating SPA team.

Table 8.5: The evaluation team and its task on the second stage of bidding

No.	Team	Task
1.	Fit and Proper	Conducting the Fit and Proper Test
2.	Evaluating Bid	Evaluating the final bid consisting of technical aspects, business plan, and price
3.	Evaluating SPA	Evaluating the term in the SPA

Both prospective partners passed the ‘fit and proper’ test. At the time of quotation, the Panin consortium bid price of Rp 90 per share (1.3 Price to Book Value/PBV) while the Sorak consortium bid was only Rp 78 per share (1.2 PBV). The business plan and offering price evaluation was ‘won’ by the Panin Consortium with a score of 60. Sorak Consortium got a score of 52. With regard to the SPA evaluation, the Panin Consortium submitted the concept for the proposed SPA a few minutes of lateness and as a result it was only given a score of 2.67 out of maximum score of 20. Sorak Consortium scored 12.23 for its concept of SPA.

Table 8.6: The assessments of the big two investors

No.	Investor	Fit and Proper Test	Business Plan & Price	SPA
1.	Sorak Financial Consortium	Ok	52	12.23
2.	Bank Panin Consortium	Ok	60	2.67

On November 20, 2003, the Sorak consortium was determined as the winner. Fifty-one percent of the shares or the equivalent of 24.37 billion shares were released to Sorak Consortium and the government received Rp 1.90 trillion. The structural composition of the IEPSA in BII is presented in figure 8.1.

Figure 8.1: Ownership structure of BII after IEPSA

The Sorak Consortium consisted of four partners. Temasek was a state holding company of Singapore. Kookmin Bank was a leading Korean Bank which ranked 29th globally, sixth in Asia and first in Korea in financing arrangement. International Commercial Bank was an International financial services provider based in Schindellegi, Switzerland, with one of the subsidiaries in Malaysia. It was a large financial services provider with total assets in excess of US\$ 1.32 billion

and shareholders' equity in excess of US\$ 200 million. Barclays was a universal bank and organized within two business clusters: Corporate and Investment Banking and Wealth and Investment Management; and Retail and Business Banking. It was the fourth-largest bank worldwide (after BNP Paribas, Deutsche Bank and HSBC).

The alliance partners

In the beginning of 2003, BII was not on the list of any of the SOEs and taken-over banks that were intended to be divested by the government for it was still being restructured by the IBRA. However, as the performance of the bank immediately ameliorated and also for the sake of covering the government's budget deficit, the government later intended to divest portions of its shares. This was through forming an IEP SA with the goal of keeping the bank growing. The divestment of government's shares in Bank BII was undertaken based on Presidential Decree No. 5/2003, which was the replacement of IMF Letter of Intent, or so-called 'white paper'.

In 2003, BII was the sixth largest bank (see table 8.2). BII aspired to become a prominent national bank with assets of Rp 50 trillion in compliance with Indonesian Banking Architecture (API).

The Sorak Consortium managed a diversifiable global portfolio, principally in Singapore, several other countries in Asia, and the OECD Economies. The consortium had made several successful strategic alliances all over the world such as with Hana Bank of Korea, DBS Group Holdings of Germany, and ING Bank of Singapore.

Technology

Prior to the economic crisis, BII focused its products and services on corporate banking. This proved to be risky because of bulk allocations of loans to certain debtors. Hence, after the crisis, with a goal of spreading risk, BII's products and services were targeted not only to the corporate customers but also to consumer and commercial customers. It focused especially on credit cards, automobile and motorcycle financing, and small and medium enterprises. To tackle problems related to violating loan provisions and to implement the changes of refocusing the target segments, BII needed to have capabilities in Good Corporate Governance and risk management as well as in e-banking technology. In complementary, Sorak Consortium's could be transferred into the IEP SA. Besides that, Temasek had core competences in good corporate management and risk management while Kookmin Bank possessed a superior e-banking technology.

Capital need

BII needed the alliance to develop and strengthen the added value of its products and services to the customers so that it would be able to increase its assets. The Sorak Consortium seemed to be an appropriate partner. In July 2003, the Sorak Consortium, had assets in the banking sectors exceeding US\$ 80 billion with assets in the investment sector of US\$ 58.7 billion. The investment sector had provided shareholder returns since its inception by as much as 18% compounded annually (Temasek, 2003) and possessed a corporate credit rating of AAA according to Standard & Poor's ratings. The partners in the consortium managed a diversifiable global portfolio in Asia and the OECD Economies.

Strategies

The vision of BII was to become the prominent national bank in terms of number of assets by 2010. Both BII and Sorak consortium were following a growth strategy. BII aimed to become the leading local bank and the consortium aspired to seek growing banking markets outside their home countries.

For BII, the alliance was intended to secure the existence of the bank's development after being restructured. For the Sorak Consortium, the alliance was a means for gaining access to Indonesia's developing market which had begun to re-emerge after the economic crisis.

The Sorak Consortium was committed to form a long-term alliance in BII even though other alternatives existed in the Indonesian banking industry such as Bank Lippo, Bank Danamon, and Bank Permata.

The economic environment and share price

In 2003, the GDP growth was 4.1% with an exchange rate of Rp 8,570 per US\$. The inflation rate was 5.06% with the Certificate of Bank of Indonesia/*Sertifikat Bank Indonesia* (SBI) of 10.17%.

The offering share price of Sorak Consortium was Rp 82 which was lower than that of its competitor Panin Consortium with Rp 90. The government received Rp 1.998 trillion in the transaction. Had Panin Consortium's bid been accepted, the government would have received Rp 2.19 trillion.

Both offering prices were lower than the average three-month value of the share price (between September to November 2003 which was Rp 113 as presented in Figure 8.2. Figure 8.2 also identified the initiation of the IEP SA (when the SPA was made) and the share price at the time sales of the government shares. The government shares sold to the consortium of 1.32 PBV was almost equal with the fair value of the bank.

Figure 8.2: BII share performance in 2003

Table 8.7: Comparison between selling share price and fair value of BII

No.	Item	Selling Price	Fair Value
1.	Price to Book Value	1.32	1.38
2.	Amount of 51 % share of equity	Rp 1.998 trillion	Rp 2.1 trillion

Problem with transparency during initiation

The stock exchange price became the basis for the bidders' valuation in determining the share price. In the scheme of transaction of the IEPSA, there was a peculiar issue. The lower share price when compared with the maximum share price in the stock exchange within six months (see figure 8.2) had a margin of Rp 53 per share. This was considered high. Apart from the IEPSA, simultaneously in November 2003, the government (through IBRA) offered 17.43% of the shares for sale at the stock exchange through a block sale with a price of Rp 90 per share. In other words, Rp 10 lower than the market price at that time. The total value was Rp 749.46 billion. From October to November 2003, ABN Amro and Trimegah Securities, which were brokers of the block sale, purchased over respectively 4.22 billion shares and 474 million shares. In the same period, they sold the same amount of shares with a very low capital gain of Rp 0.23 per share, or 0.3%. Since broker fees were also around 0.3% it seemed that ABN Amro and Trimegah Securities were not concerned with acquiring capital gains through these transactions. Based on this, it was alleged that there were practices of "cornering" of the share price to be steady at Rp 90.

8.1.3 Setting up the IEPSA: December 2003 to March 2004

The development of the strategic plan was initiated by the Board of Directors (BOD) of BII (see table 8.8) which consisted of five directors from Indonesia who were from BII and one director from Singapore and one from Korea. The BOD was responsible to formulate and implement the strategy and furthermore reported to the Board of Commissioners (BOC) as the representatives of the owners.

Table 8.8: Board of Directors of BII

No.	Name	Position	Nationality
1.	Henry Ho Hon Cheong	President Director	Singapore
2.	Armand B. Arief	Vice President Director	Indonesia
3.	Judi Prayudi Sudjono	Director of Compliance	Indonesia
4.	Rudy N. Hamdani	Director of Consumer Banking	Indonesia
5.	Sukatmo Padmosukarso	Director of Human Resource & Risk Management	Indonesia
6.	Dira K. Mochtar	Director of SME	Indonesia
7.	Yoon Myung Han	Director of Operations	Korea

The new vision and mission was developed by the President Director assisted by Vice President Director and discussed with other Directors. In terms of strategy formulation, it was initiated by the Director of Operations. The functional strategies along with the assigned activities were developed based on the discussions among directors. These functional strategies were aligned with the corporate and the competitive strategies as well as the vision and mission of BII. The formulated strategies and the accompanying activities were reported and consulted to the commissioners, see table 8.9. Two of the Indonesian representatives were independents in accordance with the Bank of Indonesia's requirement that Indonesian Banks have independent commissioners. Three representatives were from the government and four other representatives were from Sorak Consortium representing the ownership in BII.

Table 8.9: Board of Commissioners of Bank BII

No.	Name	Position	Representation	Nationality
1.	Peter Seah Lim Huat	President Commissioner	Sorak Consortium	Singapore
2.	Sumantri Slamet I.S.	Vice President Commissioner	Government	Indonesia
3.	Pradjoto	Commissioner	Government	Indonesia
4.	Putu Antara	Commissioner	Government	Indonesia
5.	Fuad Rahmany	Commissioner	Government	Indonesia
6.	Taswin Zakaria	Commissioner	Independent	Indonesia
7.	Umar Juoro	Commissioner	Independent	Indonesia
8.	Jimmy Phon Siew Heng	Commissioner	Sorak Consortium	Singapore
9.	Yoon Jong-Kyoo	Commissioner	Sorak Consortium	Korea
10.	Lee Jeung-Lak	Commissioner	Sorak Consortium	Korea

The strategies and the supporting activities are presented in table 8.10.

Table 8.10: Strategy components of BII in 2004

No.	Strategy components	Description
1.	Vision	To be the best local bank with world class standard
2.	Mission	<ul style="list-style-type: none"> • To launch innovative products and services and emphasize the importance of fairness, transparency, accountability, independence, and responsibility • To steadily transform itself into a major force in the Indonesian banking industry • Recognize responsibilities to every customer, employee, shareholder, and the general public and firmly believe in unwavering integrity in all aspects of businesses
3.	Corporate Strategy	Growth strategy by expanding possibilities embarked on a number of innovative product and services and enhancing bank's ability to optimize its large distribution network by expanding its regional offices and relocating some offices to strategic locations.
4.	Competitive strategy	Launch innovative products and services by optimizing its large distribution network by expanding its regional offices and relocating some offices to strategic locations. Focus on consumer and commercial/SME segments.
5.	Functional Strategy	<ul style="list-style-type: none"> • Shift the loan's credit disbursement policy from the corporate to the consumer and commercial/SME sectors. • Strengthen presence in the market segments through cross selling and appropriate products. • Continue to strengthen key capabilities
	Activities	<ul style="list-style-type: none"> • Create value in every delivered product and service to the customers • Enhance highly motivated and skilled employees • Ensure the proper implementation of Bank Indonesia regulations as well as other relevant directives. • Upgrade the technology platforms; to support stronger risk management systems, to develop more effective management reporting and analytical tools, and to upgrade the branch delivery system, in addition to many other new IT initiatives. • Formulate and adopt a comprehensive approach towards instilling Good Corporate Governance as a way of life

The strategic plan contained a long-term commitment by developing and nurturing the alliance focusing on SME commercial and consumer segments (credit card, automobile and motorcycle financing, and mortgage loan), building infrastructure such as risk management, front-end system, and investing in redoing, reprocess, and reengineering.

There was a complementarity in terms of the partners' objective. The aspiration of partners to achieve its vision can be depicted in the following statement of the representative of Sorak Consortium which was made two weeks after the Sorak Consortium was declared the winner: "I trust that this re-energized BII (alliance) will continue to develop new, creative and sophisticated products and services under the new leadership. The road ahead will be challenging and much work remains to be done. Nevertheless, we are confident that the Bank will be able to capitalize many opportunities to create value for all stakeholders" (Annual Report of BII, 2003).

During this time, the following situations in the alliance still occurred. There was no guarantee on employment, a rationalization was undertaken by the new owners and several managers in particular from the Chinese ethnic had already left the company. Therefore, there were oppositions from a number of managers and employees to the alliance. For the remaining managers and the labor union, the alliance formed a contractual bargaining agreement/*Perjanjian Kerja Bersama* (PKB). This indicated that they were committed to the alliance's objectives to successfully implement the strategic plan. Socialization of the new owners' commitment to the alliance was always communicated. For example, the CEO always declared to the remaining managers and employees that "We are beginning from zero point, so let's go ahead and forget the past".

8.1.4 Running the IEPsA: April 2004 to October 2006

Human resources

The alliance extended the capabilities of its employees by providing training. Training became an essential element. Sales and relationships management training and product training for Commercial and Small and Medium Enterprise (SME) as well as Consumer loans were key priorities. The Training Department had become a separate division since 2005. Before the alliance, it was part of Human Resource Development Division. By this separation, the alliance aspired that the development of Training Department would be accelerated to enhance the capabilities of employees and diffuse knowledge throughout the organization.

BII delivered a new tracking and training model for job competency across the bank in early 2005. It developed job competency and an evaluation model that related with Key Performance Indicators (KPIs) in each of the departments so that the compensation packages to the employees were given based on the achievement of KPIs. The KPIs were aligned with the strategy and objectives of the alliance. The Sorak Consortium provided their expertise in risk management, e-banking technology, and mortgage loan to help extend the BII's capabilities.

Management of the alliance

The alliance was striving to introduce new value enhancement by changing the old corporate culture where privileges were given to the Chinese ethnics, see section 8.1. In order to develop an effective organizational culture that could deal with the problems of ethnicity the alliance needed to do something besides setting up performance-based compensation packages. The alliance combined the different ethnicities in the organization through socialization. It made a declaration of unity and set up the Loenpia as a mascot and role model of cultural blending. The Loenpia was regarded as food that was introduced by Chinese ethnics in Semarang (one of the cities in Middle Java now one

of trademarks of Semarang). It became the model of cooperativeness between all the ethnicities within the organization including Chinese and Non-Chinese ethnics.

To align the objectives of the corporate office with the employees, the BOD upon approval by the shareholders (Board of Commissioners) launched an Employees Stock Ownership Program (ESOP). The intention, with having the ESOP was that employees were also responsible for the price of the bank's shares in the stock exchange which was reflected in the performance of the bank. The number of shares was given in accordance with the level in the organization structure and the performance. Thus, the higher level one's position in the bank, the higher number of shares he or she would have. The alliance also provided higher incentives and number of shares in ESOP for higher performers. Thus, employees were motivated to achieve or surpass his or her KPIs, which were indicators set up by their superiors to analyze the performances of the individuals and the organization.

Although the bank targeted all segments (including corporate, consumer, and commercial) the corporate segment was only important for the affiliated companies of BII. After the alliance, the organization paid more attention to consumer and commercial segments. In the automotive retail segments, BII had formed alliances by owning 43% in Wahana Ottomitra Multiartha Tbk (WOM)³⁴ having 87 branches across Indonesia. The manager in the geographical area division was able to make decision on the provision of loans especially for credit below Rp 10 billion (interview with Director). The divisions in a geographical area interacted with each other to form a matrix organization. The goal was to create a flexible organization which was adaptable to the changes in environment. Organizational restructuring took place so that the headquarter in Jakarta delegated the management of the divisions in the geographical area while still providing audits, performing the risk management, enhancing the Good Corporate Governance, and supplying resources mainly related with human resources and IT. As a result, related departments in the geographical divisions reported the activities and performance both to the headquarter manager and to the regional manager. However, the alliance did not provide changes to the layer of hierarchy in the organization structure. Rather, it added the span of control by developing an Executive Management Group having equal level with the BOD. The objective of the group was to accommodate the employees' needs and perform specific tasks.

The alliance control structure consisted of risk management, compliance, and audit committee. For instance, in providing a loan, the alliance had a policy that the process be accompanied by the operational mechanisms related to the risk management, compliance, and quality assurance which were in compliance with the policy of Bank of Indonesia in the anticipation to avoid having the

³⁴PT Wahana Ottomitra Multiartha Tbk was established in 1982 as PT. Jakarta Tokyo Leasing to finance Honda Motorcycles. It is an Indonesia-based financial services provider

similar past mistake related to Good Corporate Governance. On performance control, the alliance had general meeting of shareholders, audit committee, remuneration committee, and risk management. The control attributes were the instruments for feedback to the commissioners, BOD, top management, and management in compliance with Bank Indonesia's regulation.

Trust

In the implementation of strategic plan, the trust level was enhanced by frequent socialization. To ensure the successful implementation of strategic plan, the alliance always communicated the objectives of the alliance across all of the organization and ensured the participation of managers and employees. To amplify the effectiveness of the implementation of the strategic plan, the organization's common objectives were aligned with the employee stock ownership program (see previous discussion).

The alliance undertook an organization cultural change by formulating an objective performance assessment, and equal treatment of management and employees. According to the director the new culture was tolerant of diverse cultural backgrounds and ethnicity, in particular between Chinese and Non-Chinese. Nevertheless, despite frequent communication of objectives, alignment of objectives, and changes of culture, two years after the alliance the performance of the bank was not as high as it was anticipated by the partners (although it was considered as good).

Performance of the alliance

The bank's balance sheet grew significantly in 2005. As presented in table 8.11, total assets grew 47% to Rp 49 trillion fueled primarily by increased lending. Total loans increased to Rp 22.2 trillion as a result of a 95% increase in consumer lending which accounts for over 41% of the total loan portfolio. SME/Commercial lending grew by 47% and accounts for 30% of total loans. Loan quality also improved as NPL had continued to decline to 2.95% in 2005. The bank's CAR improved to 22.41%, significantly above the minimum requirement of Bank Indonesia which was 8% while the ROE increased from 9.76% in 2003 to 16.26% in 2005.

Table 8.11: Indicators and performances of BII from 2003 to 2006

No.	Indicator	2003	2004	2005	2006
1.	Number of asset	34.73 trillion	35.79 trillion	49.0 trillion	53.10 trillion
2.	Third party deposits	29.5 trillion	30.34 trillion	36.9 trillion	41.0 trillion
3.	Profit	Rp 309.1 billion	Rp 821.6 billion	Rp 725.1 billion	Rp 633.7 billion
4.	ROE	9.76%	21.66%	16.26%	15.40%
5.	ROA	0.87%	2.35%	1.7%	1.43%
6.	LDR	34.91%	43.63%	57.1%	57.22%
7.	NPL	6.13%	4.02%	2.95%	3.85%

No.	Indicator	2003	2004	2005	2006
8.	CAR	22.02%	20.89%	22.41%	23.30%
9.	NIM	3.29%	5.2%	4.9%	5.14%

An example of the bank's improved performance was in the progress on cross-selling (which was important to increase the number of customers in the consumer and commercial segments) by forming collaborations with insurance companies such as AIG and Eka Life in 2005. In terms of credit cards, the bank ranked in the "Top Four" among card issuers in Indonesia. BII held an investment in WOM, the third largest motorcycle multi finance company in Indonesia with over 8% market share of the motorcycle loans market. The goal for this strategic investment was to grow aggressively in the consumer financing business as well as to increase BII's distribution network for cross selling its products and services.

8.1.5 Closing of the IEPsA: November 2006

Due to the good performance of the bank, on November 20, 2006, the government released its 5.22% remaining shares in BII. The goal was to improve the finances in 2006. The sale of the remaining shares in BII reflected the success of the government. It successfully transferred ownership in the bank so that the government could run its role as a regulator. The sale of these minority shares was done through market mechanisms in the stock exchange.

The selling of government's shares in November 2006 was the last step in a sequence of other divestments to the public. It started in November 2003 (20.19%), followed by November 2004 (2.03%) and January 2005 (15.25%). In these divestments, Sorak Consortium bought 5.33% of the shares. After the last divestment, the ownership of BII was composed of Sorak Consortium (56.33%) and Public (43.67%).

8.2 Analysis

In this section, the model from chapter three is applied to 'evaluate' the BII IEPsA. The description provided in section 8.1 is similar to the phases identified in chapter three. It can therefore be concluded that the life cycle of the IEPsA is in accordance with the theory described in the previous chapter differentiated into a planning, formation, operation, and termination phase.

Table 8.12: Time and duration of each phase

No.	Phase	Time	Duration
1.	Planning	July to November 2003	5 months
2.	Formation	December 2003 to March 2004	4 months
3.	Operation	April 2004 to October 2006	31 months
4.	Termination	November 2006	1 month

This section provides an analysis of the presence/importance of the factors from the model, i.e. stakeholder support (8.2.1), strategic match (8.2.2), cultural understanding (8.2.3), internal organization support (8.2.4), strategic planning (8.2.5), human resource management (8.2.6), organizational arrangement (8.2.7), management control system (8.2.8), evolved cultural understanding (8.2.9), internal driver (8.2.10), and external driver (8.2.11).

8.2.1 Stakeholder support

Internal organization support: The bank was being restructured by the time the alliance initiated, but the degree of internal relationship had not been totally improved due to the influence of the previous corporate culture. In fact, the alliance was not foreseen to be divested and thus there was lack of a plan for privatization. Therefore, it possessed a negative influence on the internal organization support to the imminent alliance.

Society support: there was a change in the ownership structure, i.e. the government deprived its majority stake. The share price had a positive influence, i.e. the price paid for shares was above the fair value. But, there existed a negative issue about the transparency of the privatization process in terms of “cornering” of the share price. Thus, society support was negative.

Based on this, it can be concluded that stakeholder support for the alliance during the planning phase of the IEPSA was negative. Lack of stakeholder support was also evidenced by the oppositions from labor union, management, and society on the intended alliance. An overview is provided in table 8.13.

Table 8.13: Relationships for the stakeholder support factor

No.	Variable	Sub-Factor	Factor
1.	Company restructuring (-) Plan for privatization (-)	Internal organization support (-)	Stakeholder support (-)
2.	Change in ownership structure (-) Share price (+) Transparency of the privatization process (-)	Society support (-)	

8.2.2 Strategic match

Attractiveness of macro-economic conditions: The last three years of GDP growth were below the inflation rates within the same period. The exchange rates of Rupiah to U.S. Dollar fluctuated between 10% and 20%. Thus, GDP growth was negative and currency rate were neutral. The situation propelled a negative influence on the attractiveness of macroeconomic conditions.

Attractiveness of market: the market share of BII was ranked 6th in the banking industry in Indonesia. In terms of market growth, it exceeded 10% from 2002 to 2003. Based on this, market

share and growth of market were negative and positive respectively. Thus, the attractiveness of market was positive.

Alliance track record: BII had never formed any alliances with foreign partners. In contrast, Sorak Consortium had made a vast amount of successful strategic alliances all over the world with successful results. Thus, the alliance track record was positive.

Attractiveness of product or service: the quality of product and service were fine supported by BII's innovativeness in adapting products or services which had shifted from the corporate-oriented segment to consumer and commercial-oriented segments. Thus, the attractiveness of product or service was positive.

Attractiveness of technology: BII focused on consumer and commercial segments especially credit cards, automobile and motorcycle financing, and small and medium enterprises. To implement this objective, it needed to enhance its e-banking technology which was potentially secured by the transfer of Sorak Consortium's expertise in risk management and superior e-banking technology. It would potentially connect, transform, and extend the information technology with the business process. Thus, attractiveness of technology was positive.

Attractiveness of financial performance: the ROA of 1.43% was less than WACC of 14% while growth of sales exceeded 10%. Thus, attractiveness of financial performance was neutral.

Capacity: the combination of the six components discussed above leads to the conclusion that the capacity had a positive influence on the strategic match.

Complementarity related to the attractiveness of the market: since the foreign partner's market was in the life-cycle of growing to maturity while the domestic partner's was in a growth cycle, it can be concluded that this was positive for complementarity.

Complementarity related to the strategy: since both partners were following a growth strategy, it can be concluded that this was positive for complementarity.

Complementarity related to the attractiveness of resources: In terms of resources, BII's product range, quality, and innovation would potentially benefit from those of Sorak Consortium's product, e-banking technology, and risk management. Besides that, having superior financial resource, the foreign partners were able to support and enhance the development of the IEPSA. So that, it can be concluded that the complementarity of the attractiveness of resources was positive.

Complementarity: the combination of the three variables discussed above leads to the conclusion that complementarity had a positive influence on the strategic match.

Pressure on continuity: both partners showed commitment to continue the alliance. The partners intended to continue in the alliance for a long time. BII had pressure to form the alliance to secure its sustainability. Thus, pressure on continuity was positive.

Pressure of time on alliance: Both partners treated the alliance as an important opportunity in particular with the lucrative Indonesian banking market. BII had pressure to continue its improving performance. Thus, pressure of time of alliance was positive

Alternative to cooperation: both partners had other alternatives to forming the IEPsA. For the local partner, there were other potential partners to form the IEPsA as evidenced in the tendering process. Thus, the alternative to cooperation was negative.

Strategic importance: the combination of the three variables discussed above leads to the conclusion that strategic importance had a positive influence on the strategic match.

Based on this, it can be concluded that the strategic match of the two partners in the alliance during the planning phase of the IEPsA was positive. An overview is provided in table 8.14.

Table 8.14: Relationship in strategic match factor

No.	Variable	Component	Sub-factor	Factor
1.	GDP growth (-) Currency rate (+/-)	Attractiveness of macroeconomic conditions (-)	Capacity (+)	Strategic match (+)
2.	Market share (+/-) Growth of market (+)	Attractiveness of market (+)		
3.	Partner's experience (+) Partner's successfulness (+)	Alliance track record (+)		
4.	Quality of product or service (+) Innovativeness of product or service (+)	Attractiveness of product or service (+)		
5.	Technology of product or service (+) Information technology (+)	Attractiveness of technology (+)		
6.	Profitability (-) Growth of revenue (+)	Attractiveness of financial performance (+/-)		
7.	Complementarity related to the attractiveness of market (+) Complementarity related to the strategy (+) Complementarity related to the attractiveness of resources (+)		Complementarity (+)	
8.	Pressure on continuity (+) Pressure of time on alliance (+) Alternative to cooperation (-)		Strategic importance (+)	

8.2.3 Cultural understanding

Share of communication: in the planning phase of the alliance, sharing communication between the partners and stakeholders was infrequent. This is one of the means derived from the fact that

initially BII was not the target of privatization in 2003. Thus, the share of communication was negative.

Nurture of the alliance: the partners vowed to nurture the alliance by developing, supporting, and enhancing the performance. Thus, this variable was positive.

Based on one negative variable in the share of communication and one positive variable in the nurture of the alliance, it can be concluded that there was a negative trust and positive commitment which lead to the neutral cultural understanding. An overview is provided in table 8.15.

Table 8.15: Relationship in cultural understanding factor

No.	Variable	Component	Factor
1.	Share of communication (-)	Trust (-)	Cultural understanding (+/-)
2.	Nurture the alliance (+)	Commitment (+)	

8.2.4 Internal organization support

Participation in the implementation of strategic planning: in the formation phase, due to the lack of guarantee on employment and discrepancies between the current and the old clan, some of the managers deserted the alliance while the rests remained in the alliance. For the remaining managers and employees, they had provided their commitment to participate in the implementation of strategic plan. Thus, the internal organization support was neutral.

Table 8.16: Relationships for the internal organization support factor

Variable	Factor
Participation in the implementation of strategic planning (+/-)	Internal organization support (+/-)

8.2.5 Strategic plan

Commitment: Both partners formulated the strategic planning which contained a long-term commitment of the alliance. They established vision in 2010 to be the best world-class standard local bank and the related implementation plan such as; developing infrastructure consisting of risk management, front-end system, and investing in redoing, reprocessing, reengineering, and refocusing on SME, commercial, and consumer segments. These lists of implementation plans depicted the commitment of both partners to build and enhance the alliance development as well as to support the alliance to achieve its vision. Thus, strategic planning was positive.

Table 8.17: Relationships for the strategic planning factor

Variable	Factor
Commitment (+)	Strategic planning (+)

8.2.6 Human resource management

Collaborative people: The alliance enhanced the capabilities of the management and employees by extending the training programs. To support the target to consumer and commercial segments, the training programs such as sales and relationship management, and product training were essentials. To accelerate the enhancement of these capabilities, the alliance spun off the training department from human resource division to be a separate division. The foreign partners also enhanced the capabilities of the people by transferring knowledge, and expertise of the foreign partner to the alliance. This was accomplished by moving key people from the headquarters of Sorak Consortium to BII. Thus the collaborative people variable was positive.

Table 8.18: Relationships for the human resource management factor

Variable	Factor
Collaborative people (+)	Human resource management (+)

8.2.7 Organizational arrangement

Flattened organization: The hierarchy of organization's layers remained for the alliance did not change the layer of hierarchy. The changes that occurred were related to the increasing amount of assets so that the alliance established one more division (Executive Management Group), equal with the level of BOD. Thus, the flattened organization was neutral.

Decentralization of decision making: BII delegated the activities outside headquarters in Jakarta to business units to perform and decide the activities of disbursing loan to the debtors. It was also in the aim to promote new value enhancement of changing the old family clan where decision was mainly based solely on the family relationship to merit based. To support this delegation of empowerment of regional divisions, BII formed alliances with regional banks in order to move closer to customer and in the geographic area by sharing activities and resources with the regional divisions. Thus, the decentralization of decision making was positive.

Based on one neutral and one positive variable it can be concluded that the organizational arrangement during the operation phase of the IEPSA was positive. An overview is provided in table 8.19.

Table 8.19: Relationships for the organizational arrangement factor

No.	Variable	Factor
1.	Flattened organization (+/-)	Organizational arrangement (+)
2.	Decentralization of decision making (+)	

8.2.8 Management control system

Planning: each layer in the organization had specific performance indicators and was committed to endeavor that the objectives were able to be achieved. Thus, the planning was positive.

Control structure: the alliance had formulated and implemented the control structure related with risk management, compliance, and audit committee in compliance with the requirement of bank of Indonesia and also in the anticipation of the occurrence of past mistake. Providing the loan was essential and should be accompanied by the risk management, compliance, and quality assurance. In controlling the performance, the alliance followed the Good Corporate Governance. In the internal mechanisms, it had general meeting of shareholders, audit committee, remuneration committee, and risk management. In the external mechanisms, the shares of ownership had been traded in the stock exchange so that the performance of the bank had been controlled by the investors (as the owner of the bank's shares in the bourse). Thus, control process was positive.

Control process: The performance of the bank was controlled by the BOC as the representatives of the owners. The achievements of Key Performance Indicators whether in the corporate, divisional, or individual level were reported in every semester of the year to the BOC, BOD, and managers. The achievements of KPIs were related with the accompanying bonus and incentives. In other words, for those who met or surpassed the KPIs were able to receive attractive compensation packages. Thus, the control process was positive.

Based on three positive variables it can be concluded that the management control system during the operating phase of the IEPSA was positive. An overview is provided in table 8.20.

Table 8.20: Relationships for the management control system factor

No.	Variable	Factor
1.	Planning (+)	Management control system (+)
2.	Control structure (+)	
3.	Control process (+)	

8.2.9 Evolved cultural understanding

Trust: the alliance frequently shared communication to the organization regarding the vision, mission, objectives, and long-term commitment. Thus, share of communication was positive.

Commitment: The alliance had nurtured the alliance which can be indicated by enhanced performance. The BOC and BOD as well the managers and employees were aligned to have common objectives. The alliance formulated and issued employee stock ownership program to align the organization to have common objectives. Thus, nurture of the alliance was positive during the operating phase. In comparing the performance of the bank before and after IEPSA

indicated with increasing profitability and decreasing NPL with the ROA was below its WACC.

Thus, performance of the alliance was negative.

Based on the combination of the two components discussed above, it can be concluded that the evolved cultural understanding factor during the operating phase of the IEPSA was positive. An overview is provided in table 8.21.

Table 8.21: Relationships for the evolved cultural understanding factor

No.	Variable	Component	Factor
1.	Share of communication (+)	Trust (+)	Cultural understanding (+)
2.	Nurture the alliance (+)	Commitment (+/-)	
3.	Performance of the alliance (-)		

8.2.10 Internal driver

Strategic objectives: since the local partner's objectives of improving performance of the alliance had been accomplished, the government deprived the remaining shares and preferred to act as a banking industry regulator. Hence, the variable was the cause of the alliance termination.

Expectancy: The alliance improved and enhanced its financial and operational performance. Thus, missed of expectancy was not the cause of the termination of the alliance.

Corporate leadership: Prior to the termination, there had been no changes in corporate leadership.

Based on that, corporate leadership was not the cause of the termination of the alliance.

Thus, in terms of internal driver out of three variables, strategic objectives variable was the cause of the alliance into termination.

Table 8.22: Relationships for the internal driver factor

No.	Variable	Factor
1.	Strategic objectives (-)	Internal driver (-)
2.	Expectancy(+)	
3.	Corporate leadership (+)	

8.2.11 External driver

External environment: there had been no changes in the external environment regarding the regulations and politics so that it can be inferred that external environment was not the cause of the alliance termination.

Based on this the external driver was not the cause of the alliance termination.

Table 8.23: Relationships for the external driver factor

No.	Variable	Factor
1.	External environment (+)	External driver (+)

8.3 Additional insights

Based on the description provided in section 8.1, there are a few additional insights that can be provided concerning with stakeholder support (8.3.1), internal support (8.3.2), organizational arrangement (8.3.3), and management control system (8.3.4). These additional insights are aimed to present additional perspectives and information about the IEPsA that was not covered in section 8.2 (analysis based on the model established in Chapter 3).

8.3.1 Insights on the stakeholder support

Plan for privatization for this bank was in accordance with the government decision in 1999 to privatize and motivated by acquiring cash inflow to reduce the budget deficit on the expenditure. This plan had embarked on restructuring program supervised by IBRA prior to the IEPsA initiation. Existence of company restructuring from 1999 to 2003 eventually influenced positively to the improved degree of internal relationship inside the bank. But, in certain instances the existence of gap between the current new culture and the old clan culture still influenced negatively to the degree of internal relationship in such a way that a number of managers and employees opposed the intended alliance. Indeed, there was motivation from the government over budget deficit reduction in 2003. However, existing high share price in the bourse, and setting up floor price (by the government/IBRA) which was in accordance with the fair value had influenced positively to the offered share price of BII.

As such, having both improved degree of internal relationship although it was not optimum with certain strikes and on street protest from the internal stakeholder and high share price, they influenced negatively to the transparency of the privatization process in BII. Subsequently, it inflicted negatively to the presence of stakeholder support.

Figure 8.3: Stakeholder support – adjusted

8.3.2 Insights on the internal organization support

The new owners of BII did not guarantee the employees and management on employment. Differences between the current cultures and the old cultures had endorsed the previous old clan managers to leave the IEPSA since they were anxious and threatened over the already-secured position. Nevertheless, the partners had fit in objective to develop the IEPSA. This situation affected to the partial participation of the internal stakeholder in the implementation of strategic plan in such a way that they were not ascertained about the occupations and merely partly motivated

as well as enthusiastic with the new ownership in the IEP SA. As such, it influenced to a partial internal organization support on the IEP SA.

Figure 8.4: Internal organization support - adjusted

8.3.3 Insights on the organizational arrangement

In order to change the value from the old clan culture to the new culture, the new owners of BII delegated activities outside the headquarter, Jakarta, to the branches. It was aimed to promote this new value enhancement or changing the old family clan where decision was mainly based solely on the family relationship. This situation influenced positively to the organizational arrangement of the IEP SA.

Figure 8.5: Organizational arrangement - adjusted

8.3.4 Insights on the management control system

Control structure established by the new owners was in compliance with Bank of Indonesia regulation. It was set up in a purpose to anticipate and avoid the occurrence of past mistakes when during the economic crisis, the banking collapsed due to the non-existence of Good Corporate Governance. All in all, planning, control structure, and control process which were in accordance with the Good Corporate Governance influenced positively to the successful management control system of the IEPSA.

Figure 8.6: Management control system - adjusted

8.4 Conclusions

In this chapter the BII case was described and the model from chapter three was applied to measure the factors that played a role for the IEPSA.

First research question: what were the phases in the IEPSA?

The four identified phases in the literature, i.e. planning phase (5 months), formation phase (4 months), operation phase (31 months), and termination phase (1 month), could all be identified for the BII case. Thus, the phases followed the model.

Second research question: what were the factors in the IEPSA?

During the planning phase, the IEPSA faced these conditions, i.e. stakeholder support was negative with negative prior restructurization, plan for privatization, change in ownership structure, and transparency of the privatization process. In the beginning of 2003, BII was still being restructured and there was no plan for privatization. In the alliance, the majority of ownership shifted from the government to foreign partner. Transparency issue stemmed from activities to “cornering” the share price. Cultural understanding was neutral and strategic match was positive. Thus, from analytical perspective the IEPSA could be considered attractive while in terms of political perspective the IEPSA could be considered unattractive. During the formation phase, the situation can also be

considered mixed. Neutral influence on internal organization support was due to partial support and participation of the management and labor union where some of the managers deserted the alliance the rests together with the employees were committed with the alliance. Positive influence on strategic planning was due to the commitment of the partners in developing the alliance. Thus, similar to the first phase, from both analytical and political perspectives the IEPSA was mixed.

During the operation phase, the IEPSA's situation can also be considered positive. All of the factors in the analytical perspectives and cultural understanding were positive except neutral organizational arrangement indicating the IEPSA was doing well in the operations and relationship. Positive influences on human resource management and management control system were supported by positive related variables except negative flattened organization in neutral organizational arrangement.

It is quite possible that although the first two phases only took for nine months where the first two phases of the IEPSA took from July 2003 until March 2004, i.e. less than one year, but the situations in later phase (operation) had already supported and enhanced the environment which encouraged positive situation in the alliance.

With positive factor in the operation phase and positive factor in the evolved cultural understanding, it was a surprise that the IEPSA was terminated. But actually, it was due to the fulfilled strategic objectives by the local partner.

Third research question: what were the relationships between factors?

Several relationships between the factors in the model were observed:

- Stakeholder support influence on cultural understanding. The communication and socialization of the intended IEPSA was not intensive to the stakeholder which influenced negatively to the trust level. However, partners were willing to nurture and care of the alliance by developing, supporting, and enhancing the performance which led to a positive influence on the commitment among partners. Therefore, it led to a neutral influence on the cultural understanding.
- Cultural understanding influence on internal organization support. Neutral influences on cultural understanding in the alliance coupled with the new owners' commitment to the alliance's objective and ensured the participation of internal organization in the implementation of strategic planning had promoted neutral influence on the internal organization support.
- Internal organization support influence on strategic planning. Participation of internal organization support, in particular the remaining managers and employees who did not desert the alliance ensured the successful implementation of strategic planning.
- Human resource management influence on management control system. The alliance enhanced the quality of human resources by separating training department as autonomous entity and

developing a new tracking and training model for job competency. Hence, it helped implement the control process of the IEPSA and thus supported the management control system.

- Organizational arrangement influence on management control system. The alliance enhanced the organizational arrangement by delegating and thus increased the speed of decision making to the regional branches, changing the old clan cultural habit, aligning the objectives of the corporate to the employees, launching Employees Stock Ownership Program (ESOP), and refocusing the segments to consumer and commercial, and setting up plan and control structure. Therefore, it helped implement the control process of the IEPSA and thus supported the management control system.
- Management control system on evolved cultural understanding. Positive management control system in the alliance had improved the performance of the alliance and thus together with the commitment and intensive communication to the stakeholder had influenced positively to the evolved cultural understanding in the alliance.

Summary of factors relationship based on the case is presented in table 8.24.

Table 8.24: Relationship of factors based on the BII case

No.	Influencing factor	Influenced factor
1.	Stakeholder support	Cultural understanding
2.	Cultural understanding	Internal organization support
3.	Internal organization support	Strategic Planning
4.	Human resource management	Management control system
5.	Organizational arrangement	Management control system
6.	Management control system	Evolved cultural understanding

Additional insights:

A few additional insights gathered concerning with stakeholder support, internal organizational support, organizational arrangement, and management control system were revealed:

- In BII, plan for privatization which was in accordance with the government decision in 1999 had motivated the government to obtain cash inflow from the privatization in the aim to reduce the budget deficit on the expenditure. The plan for privatization influenced to the existence of company restructuring commenced and supervised by IBRA until the preparation of IEPSA.

Existence of company restructuring from 1999 to 2003 eventually influenced positively to the improved degree of internal relationship inside the bank. But, in certain instances the existing between the current new culture and the old clan culture which endorsed opposition from a number of managers and employees still influenced to the degree of internal relationship. Indeed, there was motivation from the government over budget deficit reduction in 2003.

However, existing high share price in the bourse, and setting up floor price (by the government/IBRA) which was in accordance with the fair value influenced positively to the share price of BII.

As such, having both improved degree of internal relationship although it was not optimum with certain strikes and on street protest from the internal stakeholder and high share price, they influenced negatively to the transparency of the privatization process in BII. Subsequently, it inflicted negatively to the presence of stakeholder support.

- The new owners of BII did not guarantee the employees and management on employment. Differences between the current cultures and the old cultures had endorsed the previous old clan managers to leave the IEPSA since they were anxious and threatened over the already-secured position. Besides that, they had fit in objective to develop the IEPSA. This situation affected to the partial participation of the internal stakeholder in the implementation of strategic plan in such a way that they were not ascertained about the occupations and merely partly motivated as well as enthusiastic with the new ownership in the IEPSA. As such, it influenced to a partial internal organization support on the IEPSA.
- In order to change the value from the old clan culture to the new culture, the new owners of BII delegated activities outside the headquarter, Jakarta, to the branches. It was aimed to promote this new value enhancement or changing the old family clan where decision was mainly based solely on the family relationship. This situation influenced positively to the organizational arrangement of the IEPSA.
- Control structure established by the new owners was in compliance with Bank of Indonesia regulation. It was set up in a purpose to anticipate and avoid the occurrence of past mistakes when during the economic crisis, the banking collapsed due to the non-existence of Good Corporate Governance. All in all, planning, control structure, and control process which were in accordance with the Good Corporate Governance influenced positively to the successful management control system of the IEPSA.

CHAPTER 9: CASE STUDY OF BANK CENTRAL ASIA

In this chapter, the case study of Bank Central Asia is presented. Section 9.1 describes the chronology of the case while section 9.2 presents the analysis of the case study based on the framework and model gathered in chapter 3 with the factors of each of the life cycle phases in the sub-sections. Section 9.3 provides insight gathered from section 9.1. Finally, in section 9.3 the answers to the research questions are provided.

9.1 Description of Bank Central Asia

Bank Central Asia Tbk. (BCA) was established on February 21, 1957, under the name of NV Bank Central Asia. BCA was owned by a prominent conglomerate of the Salim Group, which was owned by a Chinese Indonesian tycoon: Sudono Salim. It was the biggest private bank in Indonesia in terms of assets. In 1998, it suffered a temporary setback as a result of the Monetary Crisis. The bank was restructured and later acquired by the government as a BTO. As the performance of the bank ameliorated as a result of the restructuring, the bank survived the status as a BTO and the government announced its intention to divest the bank to investors in December 2001.

Based on this, the following sub sections describe the case chronology. First a description of the banking industry before the intended IEPSA is provided in section 9.1.1. Then, the IEPSA initiation which lasts until a Sales and Purchase Agreement (SPA) is reached will be described in 9.1.2. The IEPSA initiation process lasted from December 2001 until March 2002. The partners in the IEPSA formulated a strategic plan until June 2002 (9.1.3) and implemented this strategy (9.1.4) until the IEPSA was terminated in October 2006 (9.1.5).

9.1.1 Banking industry before the intended IEPSA

BCA had sustainable growth since its inception, reflected by its increasing assets, which grew from Rp 36.10 trillion in 1996 to Rp 53.36 trillion by the end of December 1997. In 1998, the bank suffered from the monetary crisis and was included in the private bank recapitalization program. During the development of the program, the bank turned into a BTO due to the absence of a controlling shareholder's willingness to participate in the recapitalization program.

On May 28, 1999, the government, through IBRA, recapitalized the bank by injecting recapitalization bonds amounting to Rp 28.48 trillion. Having this amount, the government controlled a 92.8% stake in the Bank.

Table 9.1: Cost of recapitalization and government's shares at BCA (IBRA, 2004)

Bank	Total Cost of Recapitalization	Cost of Recapitalization From Government	Cost of Recapitalization From Investor	Shares of Government After Recapitalization
	Rp Trillion	Rp Trillion	Rp Trillion	%
BCA	30.69	28.48	2.21	92.8%

Significant progress occurred in the BCA restructuring program. At the pinnacle, on April 25, 2000, IBRA had successfully completed a restructuring program and IBRA's supervision of BCA was returned to the central bank, as stated in Decree of Chairman of IBRA at the letter SK-501/BPPN/0400. Since April 2000, the intended privatization through an IEPSA was discussed between IBRA and the House of Representatives which lasted until September 2001. Afterwards, the preparation to initiate the bidding process was undertaken for about three months. During this time, IBRA conducted an Initial Public Offering, 22.5% of the total shares, on May 30, 2001 with 1.7 PBV.

Details on the progress, which are reflected by the key financial indicators of BCA from December 1999 to December 2001, are presented in table 9.2.

Table 9.2: Key Financial Indicators of Bank BCA (IBRA, 2004)

Financial Position (Rp Trillion)	31/12/1999	31/12/2000	31/12/2001
Total Asset	96.45	96.19	103.21
Total Deposit	85.58	85.98	90.35
Total Equity	5.12	7.01	9.77
Total Loans	4.10	8.17	14.67
Net Profit (Loss)	0.64	1.80	3.12
Recap Bond	60.88	59.60	58.20
Key Ratios (%)			
CAR	34.38	33.84	32.64
ROA	0.28	1.81	3.50
ROE	n.a.	31.42	38,32
LDR	4.74	9.28	16.06
NIM	(6.60)	2.56	5.65
NPL	8.86	4.19	3.22
IBRA ownership	92.80	70.30	59.71

Divestment of shares in BCA was an important stage of the government's program to achieve a healthy banking industry as a prerequisite for economic recovery. In a broader context, the success of BCA divestiture would further ignite confidence of domestic and foreign investors to invest in Indonesia.

The government's intention of carrying out a divestment process of BCA had gained support from the House of Representatives (in Bahasa Indonesia *Dewan Perwakilan Rakyat* (DPR)) with some prerequisites, which were the result of four hearings between DPR and the government (in Bahasa

Indonesia these hearings are *Rapat Dengar Pendapat* (RDP)). DPR was represented in these hearings by Commission IX which was concerned with finance and banking matters.

1. The first hearing was on October 5, 2000. The focus was on optimization of the divestment process. In this hearing Commission IX emphasized to the government their concern about transparency. Transparency was one of the items mentioned in the LOI between the government of Indonesia and the IMF.
2. The second and third hearings were on respectively February 6 and March 1, 2001. Commission IX concluded that it was necessary to conduct a gradual divestiture of BCA shares. The maximum divestment was 40% of total shares by combining 30% through an IEPSA and an additional 10% through a public offering. It was also concluded that the strategic partner should be a bank or a financial institution with a good reputation.
3. The fourth and last hearing was on September 12, 2001. In this hearing, the government proposed divesting 51% of its ownership through an IEPSA, i.e. 21% above the earlier proposed 30%. Commission IX agreed to this with the following thoughts:
 - There would probably be a sufficient pool of interested prominent and qualified strategic investors. This would especially be true if the performance of the BCA would improve.
 - As the share price of BCA improved, IBRA would sell the remaining shares at an optimal price.
 - The success of the BCA divestment was expected to be a landmark transaction. Through an injection of capital into the bank of Rp 89.36 trillion (US\$ 8.59 billion) together with the amount of the recapitalization bond, the government showed its commitment in restoring the national economy.
 - By functioning as a regulator, the government aspired to provide a greater contribution to the banking industry through the total sale of the shares when the bank's performance improved as a result of the benefit of strategic sales (IEPSA).

The market of Indonesian banking industry had increased by more than 10% annually from 1999 to 2001. The top banks in terms of assets and ownership structure are presented in table 9.3.

Table 9.3: Top banks in Indonesia (2002)

Asset Rank	Bank	Government	Private	Public	Foreign	Total Assets (Rp Trillion)
1.	Bank Mandiri	69.19 %	-	30.81 %	-	251.6
2.	Bank Central Asia	8.56 %	5.2 %	35.24 %	51 %	143.8
3.	Bank BNI	99.11 %	-	0.89 %	-	125
4.	Bank BRI	58.93 %	-	41.07 %	-	86.3
5.	Bank Danamon	76%	-	24%	-	46.9
6.	Bank International Indonesia	93.7%	-	6.3%	-	32.8

Asset Rank	Bank	Government	Private	Public	Foreign	Total Assets (Rp Trillion)
7.	Bank BTN	100 %	-	-	-	27.1
8.	Bank Lippo	100%	-	-	-	25.2
9.	Bank Niaga	97.2%		2.8%	-	23.11

Adapted from each bank's annual report

9.1.2 The IEP SA initiation: December 2001 to March 2002

The reason for establishing an IEP SA was a Letter of Intent between the government of Indonesia and the IMF to provide a privatization plan. The objective was to help the Indonesian economy out of the crisis through privatization of SOEs including the BTOs by having prior restructuring.

Bidding process

The initiation of the bidding process started in December 2001 when the government sent an invitation to bid to prospective investors. It received interest from several prospective investors. IBRA conducted evaluations of the bids in two phases. In the first phase, the prospective investors had to meet the following criteria:

1. It had to supply a statement that it was not associated directly or indirectly with Salim Group as the bank's previous owner, referring to Decree No. KKSK. Kep.03/K.KKSK/11/2000 dated on November 10, 2001.
2. If the potential investor was a consortium, it had to be led by a bank or by a financial institution with majority voting rights.
3. It had to be committed to give an irrevocable standby letter of credit (LC) or other forms of guarantee with the level of US\$ 50 million for a period of 60 days. LC was issued by banks having investment grade rating.
4. It had to pass the fit and proper test conducted by Bank of Indonesia.

Any prospective investors who failed to meet the above criteria would not be considered for the next stage of evaluation.

On January 28, 2002, IBRA announced that in the first stage of bidding process it had received final bids from four potential investors:

1. Farallon Capital (Farallon), from the United States
2. Bank Mega Consortium, from Indonesia
3. Gabungan Koperasi Batik Indonesia Consortium (GKBI), from Indonesia
4. Standard Chartered Bank (Stanchart), from the United Kingdom

The process of opening the final bid, which took place on January 28, 2002, was witnessed by Musa Soebowo (Deputy Chairman of Bank Restructuring of IBRA) and Heri Revelation Setiyarso

(Deputy Chairman of the Risk Management of IBRA), before the notary Moendjiati, SH (title of a person who has a bachelor degree in law) the representative of the World Bank, Mike Edwards, the representative of the IMF, David Nellor, and the Financial Advisors which consisted of PT Danareksa Securities, Merrill Lynch Pte. Ltd., and Deloitte & Touche.

On January 29, 2002, all of the data for the fit and proper test from the four bidders were submitted to the Bank of Indonesia. The Bank of Indonesia was required to provide the results no later than 30 days after all documents had been received.

On February 14, 2002, IBRA reviewed the terms submitted by the bidder as intended to be included in the SPA. Furthermore, on February 25, 2002, IBRA received the results of fit and proper test. Based on this evaluation, on February 26, 2002 IBRA decided that Farallon and Stanchart had passed.

The prospective investors in the second stage were then evaluated based on the following criteria:

1. Quantitative criteria

- The offering price with maximum weight of 50 points.

2. Qualitative Criteria

- The structure of the consortium with a maximum weight of 20 points.
- Requests (terms and conditions) contained in the sale and purchase agreement with a maximum weight of 25 points.
- Business plan in developing BCA with a maximum weight of 5 points.

The four teams of Pricing, Structure of the investor/consortium, SPA, and Business Plan which consisted of Financial Advisors, Legal Advisors, and IBRA evaluated the (i) files requests for bidders in the draft of sales and purchase agreement and (ii) the proposed business plan. Total weight of quantitative and qualitative criteria was 100 points. The teams and its task are presented in table 9.4.

Table 9.4: The evaluation team and its task

No.	Team	Task
1.	Pricing	Assessing the bid based on cash offered price
2.	Structure of the investor/consortium	Assessing the quality of leader and member(s) of the consortium
3.	SPA	Evaluating the terms and conditions in the SPA
4.	Business plan	Commitment to develop BCA

Farallon's offering price of Rp 1,750 per share was lower than Stanchart's price which was Rp 1,850 per share. In addition to the share price, Farallon's Terms and Conditions in the SPA were not as demanding as Stanchart's. Stanchart demanded that the government would deposit 15% of the funds to an escrow account in the anticipation of difficult situations and it required a 21% Technical

Assistant Fee (a fee from the government to Stanchart to help it improve the performance of the bank).

In the proposed SPA, Farallon was not the foreign investor but instead it was Farindo in which Farallon was a partner³⁵. What had been a positive point for the government (IBRA, 2004) was that Farindo provided a guarantee that downsizing of the firm would be avoided.

When deciding on the winner for BCA's divestiture, the government undertook both judicial and administrative considerations which referred to:

1. Government Regulation No.17 of 1999 on Restructuring Agency.
2. Government Regulation No. 63 of 2001 on diversion of status, tasks and authority of the Minister of Finance in Restructuring Agency to the Minister of State Owned Enterprises.
3. Government Regulation No.530/KMK.01/1999 on Procedures and Reporting of Sales on Assets under Restructuring Agency.
4. The hearing between the Government and Commission IX of the House of Representatives on September 12, 2001.

Administratively, the government had considered the whole process of assessment conducted by IBRA and recommended a joint team consisting of the Coordinating Minister for Economic Affairs, Ministry of Finance and Minister of State Enterprises. Likewise, the government also considered input from the community, employees, and management of the BCA, as well as the decision of the Cabinet and the Coordination Meeting Limited (In Indonesia: *Rapat Kordinasi Terbatas/Rakortas*) dated on March 11, 2002 about the planned divestment of government shares in BCA. Another consideration was a commitment from the government to bring BCA as a benchmark in national banking industry based on a steady and healthy performance in terms of solvency, profitability and liquidity.

Based on the above considerations, on March 14, 2002 the government announced to public that:

1. Farindo was the winner of the strategic divestment of government's stake in BCA.
2. The government requested IBRA to take immediate actions to optimize the interests of the government, including negotiations to further establish the conditions in the SPA upon commitments of the Farindo to develop BCA in the business plan.
3. The government requested IBRA to report regularly upon the progress in the implementation of the SPA and Strategic Plan.

The ownership structure of BCA after the IEPSA is presented in figure 9.1.

³⁵ This was a Mauritius-based consortium of Farallon and Alaerka Investments Ltd. (Alaerka). Alaerka was a local clove cigarette company of Djarum group owned by the Hartono family.

Figure 9. 1: Ownership structure of BCA after IEP SA

The new shareholders pledged several commitments in the SPA, namely:

1. Encourage the bank to extend loans to the consumer segment, and Small and Medium Enterprises (SMEs), provided that the bank's LDR of 16% was very low when compared with the average industry of 40%.
2. Formulate a Strategic Plan in particular related to employee affairs (enhancing capabilities), corporate actions (merger, acquisition, and consolidation), and map the role of BCA in the national banking industry.
3. Reduce the burden of the government to pay interest and principal repayment of bonds (bond redemption).

The alliance partners

BCA was the second biggest bank in Indonesia. In terms of assets it was worth Rp 143.8 trillion. BCA's targeted market segments consisted of the corporate, commercial and SMEs, and consumer segments. It focused primarily on providing loans to commercial and consumer segments. Before the economic crisis, the loans were mostly focused on the commercial and corporate segment. This was in particular with the bank's affiliated group. In 2002, it was regarded as the leading bank in Indonesia in the consumer segment (Infobank, 2002). BCA had not formed any strategic alliances before and was thus inexperienced in this regard.

Farindo, which was buying 51 percent of BCA (or 3,153,005,000 of BCA shares) worth US\$ 531 million was a joint venture holding company. One of the joint venture parties was Farallon. Farallon was an US\$ 8 billion hedge fund, an arbitrage fund, specialized in picking up strategic stakes in companies that were in trouble. As a result, it had formed strategic alliances in many places all over the world. It was one of the biggest and most-respected hedge funds in the United States. The other joint venture party, Alaerka, was Indonesian, an investment company under the Djarum group. It was in the top ten of Indonesia's wealthiest companies.

Technology

Since 1991, before the economic crisis, BCA spent large amount of operational expenditure on Information Technology. It benefitted from this by the developing one of the largest market shares in terms of the number of customers in the Indonesian banking industry (Infobank, 2002). At the time, BCA had one of the most advanced banking technology platforms in Indonesia (Infobank, 2002). The bank's had, through the years, developed technological capabilities in integrated banking. It also had a number of specific task-oriented application systems which collectively provided an efficient and effective integrated platform able to conduct over 2 million transactions daily. The bank popularized the use of the very small aperture terminal (VSAT) communication system to enhance inter-branch communication in 1991. BCA had successfully implemented an IT security policy in 2000 and popularized the use of pin pads for over-the counter services in 2002. BCA was also epitomized as a bank with leading information technology due to the widespread availability of the ATMs and the reliability of the data network in branches. BCA was very selective in the adoption of technology.

Farindo had no expertise in the banking technology rather it had capabilities in funding, human capital related to the investment, and Good Corporate Governance such as the ability to offer a more prudent and risk-managed orientation to the alliance.

Capital need

In 2001, after the restructuring period, the bank was looking for an alliance with a partner that could provide financing for extending its capability in IT and simultaneously expand the number of customers. IT was the core competence of BCA and it provided convenience to the customers (Infobank, 2002).

Farindo, had the financial resources to support the objective of BCA. Farindo was looking for capital gains through purchasing under-valued assets in growing markets such as Indonesia.

Strategies

Both BCA and Farindo had a corporate growth strategy. BCA's growth strategy was based on strengthening its position as a transactional bank of choice, being a financial intermediary, and to further extend its position as a leading bank. It had advanced information technology but lacked Good Corporate Governance and risk management.

Farindo, and especially its partner Farallon, was aggressive on picking up strategic stakes in companies under difficulty and had expertise in risk management. Farindo could transfer core competence and expertise in Good Corporate Governance and risk management to the alliance. This

transfer of core competence would enable BCA to tackle the risk in providing loans and to provide control mechanisms in the organization.

The economic environment and share price

In 2001, prior to the alliance, the GDP growth was 5.0%, an increase from 0.2% in 1999 and 3.5% in 2000. In 2001, the exchange rate of the Rupiah to the US\$ was 10,400. This was an increase in value from 7,085 in 1999 and 9,595 in 2000 while its fluctuation ranged from 8% to 35%. The inflation rate was 12.02%. This was lower than that of 1999 (20.32%) but higher than the 4.52% in 2000.

The average share price in the stock exchange in 2001 was Rp 4,900. This was higher than the selling price of the government's shares to Farindo, i.e. Rp 1,750. The selling price was equal to 1.2 PBV and below the fair value of 4.4 PBV. From this divestment, the Government of Indonesia encountered an opportunity loss of Rp 20.84 trillion. But, the government still exercised the privatization plan in the motive to reduce the budget deficit on the expenditure.

Table 9.5: Share price of BCA from July to November 2004

No.	Month	Share Price	Situation
1.	December 2001	Rp 3,650	Government sent invitation bids to prospective partners
2.	January 2002	Rp 4,850	Four potential investors were announced
3.	February 2002	Rp 4,900	IBRA reviewed the terms submitted by the bidder Farallon and Stanchart passed the fit and proper test
4.	March 2002	Rp 6,450	Farindo was determined as the winner

Table 9.6: Comparison between selling share price and fair value of BCA

No.	Item	Selling Price	Fair Value
1.	Price to Book Value	1.2	4.4
2.	Amount of 51 % share of equity	Rp 5 trillion	Rp 25.84 trillion

Problem with transparency during initiation

Several transparency issues were observed in the process of the initiation of the alliance. These were based on the following.

- Farindo's offering price of Rp 1,750 per share was lower than the Stanchart which was Rp 1,850 per share.
- Farindo was being advised by Deutsche Bank. This led to the perception that Farindo was helped by the IMF because the head of the Deutsche Bank's Asian operations used to be a director of IMF.

- In the second stage of the bidding process, Farallon, an investment company from the United States was determined as the winner. However, it was eventually Farindo, a consortium of which Farallon was a partner, which signed the sales and purchased agreement.
- There was an allegation that the previous owner (Salim Group) would seize control of the bank by endorsing Farindo as the party which signed the SPA. This was because Alaerka, a member of Farindo, had a close relationship with the Salim Group.
- The timing of the IEP SA initiation was not right. It happened when the stock exchange index of Jakarta (which was used to indicate the benchmarked price) was not performing well and thus this timing negatively affected the price of the government's share.
- Farindo did not have neither an infrastructure nor expertise related to banking industry
- Finally, the selling price of the government shares in BCA was much lower than both the share price in the stock exchange and the fair or fundamental value.

These issues of transparency created opposition against the IEP SA plans in particular from a number of managers and employees including the labor union which reflected the low degree of internal relationship in the bank despite prior restructuring. They frequently held protests in front of the main office of BCA on Jl. Sudirman, Jakarta.

9.1.3 Setting up the IEP SA: April to June 2002

The alliance had fit in objective and pledged certain commitments related to employee or labor issues, corporate actions, and the role of BCA in the national banking system. This was reflected in the strategic plan.

The strategy was initiated by the board of directors of BCA (see table 9.7), which consisted of six directors from Indonesia and two directors from the United States.

Table 9.7: Board of Directors of BCA

No.	Name	Position	Nationality
1.	D.E. Setijoso	President Director	Indonesia
2.	Aswin Wirjadi	Deputy President Director	Indonesia
3.	Jahja Setiaatmadja	Director of Operations	Indonesia
4.	Dhalia M. Ariotedjo	Director of Wholesale Banking	Indonesia
5.	Suwignyo Budiman	Director of Retail Banking	Indonesia
6.	Subur Tan	Director of Compliance	Indonesia
7.	Anthony Brent Elam	Director of Risk	United States
8.	M.M. Dick Noordeen	Director of Commercial Banking	United States

The mission was developed by the President Director assisted by Deputy President Director and discussed with other Directors. In terms of strategy formulation, it was initiated by the Director of Operations. The functional strategies along with the assigned activities were developed based on

discussions among directors. These functional strategies were aligned with the corporate and the competitive strategies as well as the mission of BCA. The developed strategies and activities were reported and discussed with the Board of Commissioners. This consisted of four Indonesians and two Americans as depicted in table 9.8.

Table 9.8: Board of Commissioners of BCA

No.	Name	Position	Representation	Nationality
1.	Eugene Keith Galbraith	President Commissioner	Farindo	United States
2.	Tonny Kusnadi	Commissioner	Farindo	Indonesia
3.	Renaldo Hector Barros	Commissioner	Independent	United States
4.	Cyrillus Harrionowo	Commissioner	Independent	Indonesia
5.	Raden Pardede	Commissioner	Government	Indonesia
6.	Alfred H. Rohimone	Commissioner	Government	Indonesia

The alliance set up the strategy components of BCA as the following.

Table 9.9: Strategy components of BCA in 2002

No.	Strategy components	Description
1.	Vision	Not established
2.	Mission	BCA participate in promoting Indonesia's economic development by providing a wide range of high-quality banking products and services which targeted to retail and commercial customers through the largest banking branch network in the country while aiming to achieve a return on assets higher than the national banking industry's average
3.	Corporate Strategy	Growth strategy to anticipate the growing industry demand by creating the most comprehensive and integrated transactional banking platform of unrivaled depth and reach in Indonesia.
4.	Competitive strategy	Provide integrated premium products and services, be recognized as a trendsetter and as an innovator for technology-based products and services designed to meet, and exceed customer expectation
5.	Functional Strategy	<ul style="list-style-type: none"> • Continue to expand its exposure in consumer banking and credit card services in view of the large demand and potential for such services in Indonesia • Optimize the use and application of its current range of products and services • Leverage the extensive reach and depth of its multi-channel delivery platforms • Maintain close relationship with existing customers while developing new ones
6.	Activities	<ul style="list-style-type: none"> • Provide innovative and creative marketing and promotional programs offering more attractive prizes and incentives. • Forge strategic links and alliances with other consumer goods and services providers • Emphasize importance on the principle of relationship management • Employ, train, mobilize and retain people in order to provide quality service and timely delivery to customers • Develop and apply technologies specifically aimed at improving efficiency and effectiveness within the bank

The alliance set up three main programs in the strategic planning. First, the alliance began to penetrate the markets in particular the consumer segment more proactively through the expansion of loans. Second, it cooperated with the government to speed up the repayment of the government's recapitalization bond. Third, the alliance shared the implementation plan with the employees and management.

Despite the commitment from both partners, protests were frequently held by the employees regarding the fears for rationalization. In other words, there was no guarantee on employment from the new owners. This was similar to the period during the bidding process. At the time, the Sudirman road, the capitol street of Jakarta where the BCA headquarter located, was frequently flooded with the demonstration of the labor union. Furthermore, management oppositions to the alliance still existed. Similar with the union, they were mostly afraid of losing power because of the alliance. All in all, despite fit in objective of the partners on the IEP SA but absence of guarantee on employment influenced to lack of participation in the implementation of strategic plan and subsequently to the lack of internal support.

9.1.4 Running the IEP SA: July 2002 to September 2006

Human resources

BCA's core strength lay in its commitment towards innovation and its ability to employ, train, mobilize and retain its people in order to provide quality service and timely delivery to its customers.

The bank's human resource division was constantly searching for innovative methods that it could adopt and that would lead to excellence and standardized prime quality service from its employees. To employ uniform standards of service as well as motivating others to provide service to the best of their abilities, the bank employed a certification system for the best tellers. An estimated 400 of the bank's 3,000 tellers were certified. The certification was jointly developed with the Australian Institute of Management.

Management of the alliance

The hierarchy in the organization did not change after the IEP SA was established. The existing hierarchy was already considered as flat. It was also considered to be able to respond quickly to a changing business environment.

The organization was decentralized. The decentralization system was structured around a) types of loans especially on consumer and commercial segments, b) due diligence in determining decisions of loans, and c) parties involved in the four eyes principle, i.e. which required a minimum of two

people for deciding on a loan. For instance, commercial and large retail loan was decentralized in the approach, with the parties involved are regional head and regional credit center. The detail scheme of decentralization of decision making is presented in table 9.10.

Table 9.10: Decentralization of loan decision making (Annual Report of BCA, 2002)

Loan Types	Approach in Loan Authority	Parties involved in Four eyes Principle	Monitoring Tool(s)
Corporate	Centralization	<ul style="list-style-type: none"> • Corporate and Commercial Business Division (Head Office) • Credit Division 	Credit Risk Scoring System
Commercial and large retail	Decentralization	<ul style="list-style-type: none"> • Regional Head • Regional Credit Center 	Credit Risk Scoring System
Retail, SME and Consumer at smaller branches	Decentralization & Automation	<ul style="list-style-type: none"> • Branch Head • Info Flow Application System 	Credit Risk Scoring System

The alliance had aligned its objective setting in the organization. It had granted BCA managements and top employees a Management Stock Ownership Program (MSOP) through the issuance of 294,398,600 BCA's common shares.

The Board of commissioner and Director held a meeting once aweek. The goal of this meeting was to respond to the business environment more quickly and flexible. The meetings were attended by 90% of the members.

As of September 2006, there was no vision developed for the organization by the management of BCA. They were still searching to develop the right vision.

The alliance had implemented a system of Good Corporate Governance to ensure effective leadership and controlling the management. The board of commissioner was mainly responsible for overseeing and directing the Board of Directors in formulating and achieving the company's mission and business strategy. The Board of Commissioners, with the help of Audit Committee and Remuneration Committee, was also involved in ensuring the implementation of Good Corporate Governance practices within the Bank. The Board of Directors was responsible for establishing the internal control infrastructure; ensuring the execution of internal audit function; and taking action based on internal audit findings in line with policies and guidelines established by the Board of Commissioners. There were other committees such as a nomination committee, executive committees, internal audit, and also BCA bankers' code of ethics. The control structure of the bank operated periodically in annual basis and provided feedback for the operations performance. The control structure was in compliance with Bank of Indonesia regulation. It was established in a purpose to anticipate and avoid the occurrence of past mistakes related with Good Corporate Governance.

Trust

According to one of the commissioners “The alliance can be regarded as one of the most ideal places to work in”, thus, trust level can be felt in the environment. Trust was obtained from the credibility and accountability of all the employees and partners. The level of commitment was good since the performance appraisal system of the company was able to provide a fair reward and punishment which was already inherent in the company and became part of the motivation system. Moreover, the high level of trust and commitment of the company was also ignited by the good system.

The level of trust and commitment increased considerably during the operation phase because the directors and managers shared and communicated information with the organization. Both partners explored ways to improve the resources, i.e. human resources, IT, innovation for the benefit of the alliance. They had adapted to each other, and became one solid team which was able to achieve a solid performance.

Performance of the alliance

The year 2005 presented unique challenges for Indonesia’s banking industry. It began with confidence due to improved political stability and the previous year’s economic growth. In the second half of the year, economic performance quickly changed as the government raised the domestic fuel price. This was done to maintain fiscal sustainability in the face of increasing world oil prices. To alleviate inflationary pressures, the Bank of Indonesia tightened its liquidity by increasing interest rates and by increasing requirements for bank reserves. For the banking sector the consequences were quite dramatic as banks were challenged with rising cost, decreasing NIM, and escalating NPL (Annual Report of BCA, 2005).

As presented in table 9.11, BCA ended the year with notable achievements as the assets, loans, and profits grew considerably. Nevertheless, the third party deposits did not grow as expected. Commercial and SME loans provided the largest portion (44.45%) of the total loans which was channeled to commercial and SME businesses. The remaining portions were in the corporate, consumer segments and employee loans, each respectively representing 37.12%, 16.46% and 1.97% of total loans.

Table 9.11: Indicators and performances of BCA from 2002 to 2005
(Annual Report of BCA, 2002, 2003, 2004, and 2005)

No.	Indicator	2002	2003	2004	2005
1.	Number of asset	Rp 117.3 trillion	Rp 133.3 trillion	Rp 149.2 trillion	Rp 150.2 trillion
2.	Third party deposits	Rp 103.7 trillion	Rp 118.0 trillion	Rp 131.6 trillion	Rp 129.6 trillion
3.	Profit	Rp 2.54 trillion	Rp 2.39 trillion	Rp 3.20 trillion	Rp 3.60 trillion

No.	Indicator	2002	2003	2004	2005
4.	ROE	33.5%	23.85%	28.32%	28.16%
5.	ROA	3.18%	2.6%	3.21%	3.44%
6.	LDR	20.44%	24.62%	30.60%	41.78%
7.	NPL	3.47%	2.34%	1.28%	1.71%
8.	CAR	32.19%	27.95%	23.95%	21.53%
9.	NIM	5.77%	4.93%	5.28%	6.00%

9.1.5 Closing of the IEPSA: October 2006

In October 2006, government of Indonesia sold its remaining 5.02% of BCA shares to the public. They were worth Rp 3,550 per share or 3.1 PBV. This was essentially a continuation of the government's divestment through the stock exchange. This divestment began with an initial public offering (IPO) in 2000 of 22.55% of the shares. It was followed by 10.59% of the shares in June and July of 2001, 0.15% of the shares in 2002, and then another 3.54% of the shares in 2004. Additionally, in 2002, private owners sold 1.95% to the stock exchange.

The government thought that BCA had achieved optimum performance through its alliance with Farindo. Thus, it was the proper time for the government to divest since there was no need to remain in the bank. There was also a need for the government to recover its financial investment which was valued around Rp 2.194 trillion.

After the government's last divestment in BCA, Farindo's ownership in BCA was 51%, Public (43.8%), and Private (5.2%).

9.2 Analysis

In this section, the model from chapter three is applied to 'evaluate' the IEPSA at BCA. The description provided in section 9.1 is similar to the phases identified in chapter three. It can therefore be concluded that the life cycle of the IEPSA is in accordance with the theory described in the previous chapter differentiated into a planning, formation, operation, and termination phase.

Table 9.12: Time and duration of each phase

No.	Phase	Time	Duration
1.	Planning	December 2001 to March 2002	4 months
2.	Formation	April to June 2002	3 months
3.	Operation	July 2002 to September 2006	51 months
4.	Termination	October 2006	1 month

This section provides an analysis of the presence/importance of the factors from the model, i.e. stakeholder support (9.2.1), strategic match (9.2.2), cultural understanding (9.2.3), internal organization support (9.2.4), strategic planning (9.2.5), human resource management (9.2.6),

organizational arrangement (9.2.7), management control system (9.2.8), evolved cultural understanding (9.2.9), internal driver (9.2.10), and external driver (9.2.11).

9.2.1 Stakeholder support

Internal organization support: prior to the establishment of the alliance, the bank had been restructured by the government through IBRA. It is noteworthy that the intended privatization was not communicated to the internal organization (reflected with a low degree of internal relationship) even though the bank was slated for privatization and the foreign partner was committed to refrain from a rationalization program. This situation gave impetus to a positive influence on the company restructuring and a negative influence on the plan for privatization.

Society support: there was a change in the ownership structure, i.e. the government deprived its majority stake. The share price had a negative influence, i.e. the price paid for shares was below the fair value. There was a negative issue on transparency in terms of the offered share price from Farindo which was below its competitor (Stanchart). Besides that, the fact that representative of Deutsche Bank acting as advisor of Farindo was the previous IMF's director ignited allegation of conflict of interest. Thus, society support was negative.

Based on this, it can be concluded that stakeholder support for the alliance during the planning phase of the IEPsA was negative. Lack of stakeholder support was also evidenced by the opposition from labor union, management, and society on the intended alliance. An overview is provided in table 9.13.

Table 9.13: Relationships for the stakeholder support factor

No.	Variable	Sub-Factor	Factor
1.	Company restructuring (+) Plan for privatization (-)	Internal organization support (+/-)	Stakeholder support (-)
2.	Change in ownership structure (-) Share price (-) Transparency of the privatization process (-)	Society support (-)	

9.2.2 Strategic match

Attractiveness of macroeconomic conditions: The last three consecutive years data show that inflation rate surpassed the GDP growth while the exchange rates of Rupiah to U.S. Dollar fluctuated by 35%. Thus, GDP growth and currency rate were negative.

Attractiveness of market: the market share of BCA was ranked 2nd in banking industry in Indonesia. In terms of growth of market, it was more than 10% from 2001 to 2002. Based on this, market share and growth of market were positives which produced positive attractiveness of market.

Alliance track record: BCA had never formed any strategic alliances before. In contrast, Farindo was an investment consortium, specialized in picking up strategic stakes in companies on the difficulties in which Farallon as a member of the consortium had formed strategic alliances in any places all over the world. Thus, the alliance track record was neutral.

Attractiveness of product or service: the quality of product and service were fine supported one of the most advanced banking technology platforms in Indonesia. Thus, the attractiveness of product or service was positive.

Attractiveness of technology: BCA was generally viewed as a leading bank on information technology due to the widespread availability of the abundant ATMs and the reliability of the information networks within the value chain activities. As an investment company, Farallon had the ability to transfer a more prudential and risk-managed activities to the alliance. It is also noteworthy that the information technology had been integrated in the organization. Thus, attractiveness of technology was positive.

Attractiveness of financial performance: the ROA was less than WACC while growth of sales exceeded 10%. Thus, attractiveness of financial performance was neutral.

Capacity: the combination of the six components discussed above leads to the conclusion that the capacity had a positive influence on the strategic match.

Complementarity related to the attractiveness of the market: since the foreign partner's market was in the life-cycle of growing to maturity while domestic partner's was in a growth cycle it can be concluded that this was positive for complementarity.

Complementarity related to the strategy: since both partners were implementing a growth strategy, it can be concluded that this was positive for complementarity.

Complementarity related to the attractiveness of resources: in terms of resources, there was complementarity on the attractiveness of partners' products and services. This was due the foreseen BCA's product range, quality, and innovation which potentially gained benefit from those of Farallon, in particular with more prudential and risk-managed orientation to the alliance. Besides that, having superior financial capability, the foreign partner was potentially able to support and enhance the development of the IEPSA and implement the strategy. So that it can be concluded that the complementarity of the attractiveness of resources was positive.

Complementarity: the combination of the three variables discussed above leads to the conclusion that complementarity had a positive influence on the strategic match.

Pressure on continuity: both partners showed commitment to continue the alliance. The alliance was regarded as a mode of securing BCA's prominent position in banking industry. For Farindo, the alliance would support its growth strategy in acquiring the prospective company. Thus, pressure on continuity was positive.

Pressure of time on alliance: both partners treated the alliance as an important asset to exploit the opportunity for the sake of their existences. After the restructuring period, BCA possessed a time pressure to forming the alliance with the aim to acquire an increasing number of customers. Thus, pressure of time on alliance was positive.

Alternative to cooperation: both partners had other alternatives to forming the IEPSA. Besides Farindo, BCA had other alternatives of alliance partner such as with Stanchart and likewise Farindo had other alternative target of banks in Indonesia such as with Bank Niaga. Thus, the alternative to cooperation can be considered negative.

Strategic importance: the combination of the three variables discussed above leads to the conclusion that strategic importance had a positive influence on the strategic match.

Based on this, it can be concluded that the strategic match of the two partners in the alliance during the planning phase of the IEPSA was positive. An overview is provided in table 9.14.

Table 9.14: Relationship in strategic match factor

No.	Variable	Component	Sub-factor	Factor
1.	GDP growth (-) Currency rate (-)	Attractiveness of macroeconomic conditions (-)	Capacity (+)	Strategic match (+)
2.	Market share (+) Growth of market (+)	Attractiveness of market (+)		
3.	Partner's experience (+/-) Partner's successfulness (+/-)	Alliance track record (+/-)		
4.	Quality of product or service (+) Innovativeness of product or service (+)	Attractiveness of product or service (+)		
5.	Technology of product or service (+) Information technology (+)	Attractiveness of technology (+)		
6.	Profitability (-) Growth of revenue (+)	Attractiveness of financial performance (+/-)		
7.	Complementarity related to the attractiveness of market (+) Complementarity related to the strategy (+) Complementarity related to the attractiveness of resources (+)		Complementarity (+)	
8.	Pressure on continuity (+) Pressure of time on alliance (+) Alternative to cooperation (-)		Strategic importance (+)	

9.2.3 Cultural understanding

Share of communication: in the planning phase of the alliance, sharing communication between the partners and stakeholders was infrequent. Thus, the share of communication was negative.

Nurture of the alliance: the partners were willing to nurture the alliance by developing, supporting, and enhancing the performance. Thus, this variable was positive.

Based on one positive variable and one negative variable it can be concluded that the cultural understanding in the alliance during the planning phase of the IEPSA was neutral. An overview is provided in table 9.15.

Table 9.15: Relationship in cultural understanding factor

No.	Variable	Component	Factor
1.	Share of communication (-)	Trust (-)	Cultural understanding (+/-)
2.	Nurture the alliance (+)	Commitment (+)	

9.2.4 Internal organization support

Participation in the implementation of strategic planning: In the formation phase, the management and labor union were afraid of rationalization. A rationalization program that was implemented by the new owners led to a situation where several managers left the company. These conditions made the remaining managers and employees reluctant to participate in the implementation of strategic planning. Thus, the internal organization support was negative.

Table 9.16: Relationships for the internal organization support factor

Variable	Factor
Participation in the implementation of strategic planning (-)	Internal organization support (-)

9.2.5 Strategic planning

Commitment: The strategic planning developed by the alliance contained a long-term commitment of the alliance by developing the alliance with focus on commercial and consumer segments, optimizing the use and applications of its current range of products and services, leveraging the extensive reach and depth of its multi-channel delivery platforms, and maintaining close relationship with existing customer while developing new ones. These show strong commitment of the alliance, thus, the strategic planning was positive.

Table 9.17: Relationships for the strategic planning factor

Variable	Factor
Commitment (+)	Strategic planning (+)

9.2.6 Human resource management

Collaborative people: One of the commissioners said that the alliance can be regarded as one of the most ideal places to work with and filled with collaborative people able to undertake relationship in the organization and to the customers. To improve the capabilities of people, the alliance enhanced the training program as well as encouraged and motivated the managers and employees to be well-performed. Alliance designed the performance appraisal system which was able to provide a fair reward. Job competency and evaluation model had been built. All of these were aimed to encourage innovativeness in providing product and service to the customers. Thus, the collaborative people variable was positive.

Table 9.18: Relationships for the human resource management factor

Variable	Factor
Collaborative people (+)	Human resource management (+)

9.2.7 Organizational arrangement

Flattened organization: the organization did not change the layer of hierarchy in the organization.

Top management considered that the current hierarchy was able to respond quickly to a changing business environment. Thus, the flattened organization was neutral.

Decentralization of decision making: it occurred in the loan provision to the debtors. Decision making was determined based on types of loan, approach in loan authority, and parties involved in the four eyes principle. Commercial and large retail loans were decentralized to the regional division, with the involved parties being the regional head and regional credit center, while the loan to the corporate segment was centralized by headquarter in Jakarta. Thus, the decentralization of decision making was positive.

Based on one neutral and one positive variable it can be concluded that the organizational arrangement during the operation phase of the IEPsA was positive. An overview is provided in table 9.19.

Table 9.19: Relationships for the organizational arrangement factor

No.	Variable	Factor
1.	Flattened organization (+/-)	Organizational arrangement (+)
2.	Decentralization of decision making (+)	

9.2.8 Management control system

Planning: the alliance formulated the strategic plan which committed to achieving the alliance's objectives in accordance with the mission statement. Thus, the planning was positive.

Control structure: it complied with Bank of Indonesia's regulation on Good Corporate Governance and risk management to evade the occurrence of past mistakes which had a huge impact upon the economic crisis in 1998. In one instance, to provide a loan, the process was accompanied by assessment of risk management, compliance, and quality assurance. To assess its performance, the alliance established general meeting of shareholders, audit committee, remuneration committee, and risk management. These control attributes were the sources of feedback to the commissioners, BOD, top management, and management. Audit, remuneration, and nomination committees were established to ensuring the implementation of Good Corporate Governance practices. In addition to it, executive committees, internal audit, were established to promote the effectiveness of risk management implementation. Thus, control structure was positive.

Control process: the control process was conducted semi annually in the corporate, divisional and cascaded or deployed to individual level. This process was aimed to acquire information regarding the fulfillment of performance indicators and analyze any gaps between the current performances and the objectives and afterwards designated implementation plan to reduce the gaps. Thus, the control process was positive.

Based on three positive variables it can be concluded that the management control system during the operating phase of the IEPSA was positive. An overview is provided in table 9.20.

Table 9.20: Relationships for the management control system factor

No.	Variable	Factor
1.	Planning (+)	Management control system (+)
2.	Control structure (+)	
3.	Control process (+)	

9.2.9 Evolved cultural understanding

Trust: there was frequent sharing of communication from the partners to the organization. Thus, share of communication was positive.

Commitment: the alliance committed to achieving the vision and mission. To ensure the achievement of the common objectives, the shareholder and managers as well as employees' interest were aligned with the employee stock ownership program. By this alignment, managers and employees was expected to be more aware of the value of the alliance which was reflected in the bourse's share price. Thus, nurture of the alliance was positive during the operating phase.

Performance of the alliance: when comparing the performance of the bank before and after IEPSA, the performance improved in profitability and deteriorated in NPL with the ROA of the bank above its WACC. Thus, performance of the alliance was positive.

Based on the combination of the two components discussed above, it can be concluded that the evolved cultural understanding factor during the operating phase of the IEPSA was neutral. An overview is provided in table 9.21.

Table 9.21: Relationships for the evolved cultural understanding factor

No	Variable	Component	Factor
1.	Share of communication (+)	Trust (+)	Cultural understanding (+)
2.	Nurture the alliance (+)	Commitment (+)	
3.	Performance of the alliance (+)		

9.2.10 Internal driver

Strategic objectives: local partner determined that the alliance's objectives of improving performance had been fulfilled so that it was not necessary to remain in the alliance and preferred to be the industry regulator by selling the remaining shares. Due to this situation, this variable was the cause of the alliance termination.

Expectancy: the alliance improved its performance which inferred that missing expected performance was not the cause of alliance's termination.

Corporate leadership: There were no changes in corporate leadership so that it was not the cause of the termination of the alliance.

Thus, in terms of internal driver out of three variables strategic objectives variable was the cause of the alliance into termination.

Table 9.22: Relationships for the internal driver factor

No.	Variable	Factor
1.	Strategic objectives (-)	Internal driver (-)
2.	Expectancy(+)	
3.	Corporate leadership (+)	

9.2.11 External driver

External environment: there were no changes in the external environment in terms of regulations and politics so that it can be inferred that external environment was not the cause of the alliance termination.

Based on this the external driver was not the cause of the alliance termination.

Table 9.23: Relationships for the external driver factor

No.	Variable	Factor
1.	External environment (+)	External driver (+)

9.3 Additional insights

Based on description provided in section 9.1, there are a few additional insights that can be provided related to stakeholder support (9.3.1), internal support (9.3.2), and management control system (9.3.3). These additional insights are aimed to present additional perspectives and information about the IEPSA that was not covered in section 9.2 (analysis based on the model established in Chapter 3).

9.3.1 Insights on the stakeholder support

In the year 1999, government acquired BCA as one of the BTOs and planned for its privatization through IEPSA. To revive the bank and secure a successful privatization, the government restructured the bank until it improved the performance prior to the IEPSA. But, due to the significant low degree of internal relationship before the restructuring exists as well as opposition from managers and employees, the existence company restructuring had not influenced positively to the degree of internal relationship. In such situation, strikes and on the street protests were rampant prior to the privatization.

Motivation of budget deficit reduction in 2002 when the GDP growth was 4.5% and inflation rate of 11.88% affected negatively to the share price since the government seemed to hastily divest the bank. There was existence of low share price in the bourse (as the benchmarked price) due to the economic crisis that influenced negatively to the share price of BCA. Government decided to benchmark the share price in the SPA with the share price in the bourse that was below its fair value.

Having both low degree of internal relationship and low share price in the SPA influenced negatively the transparency of the privatization process which afterwards influenced to the absence of stakeholder support.

Figure 9.2: Stakeholder support – adjusted

9.3.2 Insights on the internal organization support

The managers and labor union were afraid of rationalization since the new owners did not guarantee the internal stakeholder on the employment. Therefore, despite the existence of fit in objective of the partners, the situation in the planning phase did not motivate internal stakeholder to participate in the implementation of strategic plan in such a way they were secured and enthusiastic with the IEP SA. This situation influenced negatively to the internal support.

Figure 9.3: Internal organization support - adjusted

9.3.3 Insights on the management control system

Control structure established by the new owners was in compliance with Bank of Indonesia regulation. It was set up to anticipate and avoid the occurrence of past mistakes when during the economic crisis, the banking collapsed due to the non-existence of Good Corporate Governance. All in all, planning, control structure, and control process which were in accordance with the Good Corporate Governance influenced positively to the successful management control system of the IEP SA.

Figure 9.4: Management control system - adjusted

9.4 Conclusion

In this chapter the BCA case was described and the model from chapter three was applied to measure the factors that played a role for the IEP SA.

First research question: what were the phases in the IEPSA?

The four identified phases in the literature, i.e. planning phase (4 months), formation phase (3 months), operation phase (51 months), and termination phase (1 month), could all be identified for the BCA case. Thus, the phases followed the model.

Second research question: what were the factors in the IEPSA?

During the planning phase, the IEPSA faced these situations, i.e. stakeholder support was negative except company restructuring which was positive. Cultural understanding was neutral and strategic match was positive. Thus, from analytical perspective the IEPSA could be considered attractive while in terms of political perspective the IEPSA could be considered unattractive. Change in ownership structure was considered negative since the majority of ownership shifted from the government to foreign partner. Transparency issue stemmed from lower share price of Farindo compared to its competitor (Stanchart), low degree of internal relationships, and the previous staff's of IMF acting as representative of advisor of Farallon.

During the formation phase, the situation can also be considered mixed. Negative influence on internal organization support was due to the partial participation of the management and labor union in the implementation of strategic plan. Positive influence on strategic planning was due to the commitment of the partners in developing the alliance. Thus, similar to the first phase, from both analytical and political perspectives the IEPSA was mixed.

During the operation phase, the IEPSA's situation can also be considered positive. All of the factors in the analytical perspectives and cultural understanding were positive except neutral flattened organizational variable indicating the IEPSA was doing well in the operations and relationship. Positive influences on human resource management and management control system were supported by positive related variables.

Although the first two phases only took seven months where the first two phases of the IEPSA took from December 2001 until June 2002, i.e. less than one year, but the situations had already supported and enhanced the alliance which encouraged positive situation in the operation phase.

With positive factors in the operation phase and a positive factor in the evolved cultural understanding, the IEPSA was terminated due to the fulfilled strategic objectives by the local partner.

Third research question: what were the relationships between factors?

Several relationships between the factors in the model were observed:

- Stakeholder support influence on cultural understanding. The communication of the intended IEPSA was not intensive to the stakeholders which negatively influenced the trust level. However, the partners were willing to nurture and take care of the alliance by developing,

supporting, and enhancing the performance which led to a positive influence on the commitment among partners. Hence, it led to a neutral influence on the cultural understanding.

- Cultural understanding influence on internal organization support. Neutral influences on cultural understanding in the alliance coupled with the new owners' commitment to the alliance's objective and ensured the participation of internal organization in the implementation of strategic planning had promoted positive influence on the internal organization support in particular for the managers and employees who remained in the alliance.
- Internal organization support influence on strategic planning. Although there was a partial internal organization support, the remaining managers and employees committed to the alliance by participating in the implementation of strategic planning.
- Human resource management influences on management control system. The alliance enhanced the quality of human resources by improving the capabilities of human resources and setting fair performance-based system. Thus, it helped implement the control process of the IEPSA and thus supported the management control system.
- Organizational arrangement influences on management control system. The alliance enhanced the organizational arrangement by setting up decentralized authorization of loan determination, aligned its objective setting in the organization, granting BCA management and top employees a Management Stock Ownership Program (MSOP), setting up Audit Committee and Remuneration Committee, as well as other committees such as nomination committee, executive committees, internal audit, and also BCA bankers' code of ethics. This situation helped implement the control process of the IEPSA and thus supported the management control system.
- Management control system influences on evolved cultural understanding. The situation of positive management control system in the alliance had improved the performance of the alliance and thus together with the commitment and intensive communication to the stakeholder had influenced positively to the evolved cultural understanding in the alliance.

A summary of the relationships between factors based on the case is presented in table 9.24.

Table 9.24: Relationship of factors based on the BCA case

No.	Influencing factor	Influenced factor
1.	Stakeholder support	Cultural understanding
2.	Cultural understanding	Internal organization support
3.	Internal organization support	Strategic Planning
4.	Human resource management	Management control system
5.	Organizational arrangement	Management control system
6.	Management control system	Evolved cultural understanding

Additional insights:

There are a few additional insights gathered concerning with stakeholder support, internal organization support, and management control system:

- In the year 1999, government acquired BCA as one of the BTOs and planned for its privatization through IEPSA. In order to revive the bank and secure a successful privatization, the government restructured the bank until it improved the performance prior to the IEPSA. But, due to the significant low degree of internal relationship before the restructuring and opposition from a number of managers and employees, the existence company restructuring had not influenced positively to the degree of internal relationship. Strikes and on the street protests were rampant prior to the privatization.

Motivation of budget deficit reduction in 2002 when the GDP growth was 4.5% and inflation rate of 11.88% affected negatively to the share price since the government seemed to hastily divest the bank. There was existence of low share price in the bourse (as the benchmarked price) due to the economic crisis that influenced negatively to the share price of BCA. Government decided to benchmark the share price in the SPA with the share price in the bourse that was below its fair value.

Having both low degree of internal relationship and low of share price in the SPA influenced negatively the transparency of the privatization process which afterwards influenced to the absence of stakeholder support.

- The managers and labor union were afraid of rationalization since the new owners did not guarantee the internal stakeholder on the employment. Despite the existence of fit in objective of the partners, the situation in the planning phase did not motivate internal stakeholder to participate in the implementation of strategic plan in such a way they were secured and enthusiastic with the IEPSA. This situation influenced negatively to the internal support.
- Control structure established by the new owners was in compliance with Bank of Indonesia regulation. It was set up to anticipate and evade the occurrence of past mistakes during the economic crisis in 1998, the banking collapsed due to the non-existence of Good Corporate Governance. All in all, planning, control structure, and control process which were in accordance with the Good Corporate Governance influenced positively the successful management control system of the IEPSA.

CHAPTER 10: CROSS-CASE ANALYSIS

In this chapter the cross-case analysis of the six cases is discussed. The aim of the analysis is to compare the results across the cases. The analysis of determining the answer on the first research question about phases based on cross-case analysis is presented in section 10.2. The answer to the second research question about factors is presented through a cross-case analysis in section 10.3. Finally, the answer on the third research question, the relationship of factors, is presented in section 10.4 based on the cross-case analysis. First, section 10.1 provides a general introduction with an overview of ownership changes over time.

10.1 Introduction

The cases, as presented in table 10.1, of the IEPSAs comprise various industries from telecommunications (Indosat), cement (Semen Gresik), and banking (Bank Niaga, Bank Permata, Bank International Indonesia, and Bank Central Asia).

The cases were prominent companies in Indonesia. Semen Gresik was market leader, while Indosat and BCA were second in their markets in terms of market share. Bank Niaga, Bank Permata, BII, and BCA were all in the top-ten in the banking industry in terms of market share.

The foreign partners were from Singapore (Indosat), Mexico (Semen Gresik), Malaysia (Bank Niaga), England (Bank Permata), United States (BCA), and for BII foreign partners were from several countries, i.e. Singapore, South Korea, Switzerland and England.

In terms of the ownership, the majority shares were owned by foreign partners except for Semen Gresik. It can be considered as a split ownership in accordance with Bleeke and Ernst (1991). The foreign partner owned 51-52% and the local partner possessed 48-49% of ownership. The ownership structure changed from the planning and formation, operation, to termination phases. In the termination phase, government in the banking IEPSAs sold out its remaining shares in such a way that it became only an industry regulator. The foreign partners were the major owners since the government sold its remaining shares or became the minority owner except in the cement IEPSA where it persisted to be a dominant owner. In the case of Indosat, since it was a former subsidiary of a U.S. multinational company, ITT, and nationalized in 1980, the stakeholder opposition to the alliance subsided in the operation phase, so that when STT sold its shares to Qtel, a Qatar telecommunications company, it left the government as the minority owner.

Table 10.1: Cross-case data of the IEPSA profiles

No.		Indosat	Semen Gresik	Bank Niaga	Bank Permata	Bank International Indonesia	Bank Central Asia
1.	Industry	Telecom	Cement	Banking	Banking	Banking	Banking
2.	Rank of market share	2	1	9	7	6	2
3.	Foreign partner	Singapore	Mexico	Malaysia	England	Singapore South Korea Swiss England	United States
4.	Ownership based on SPA						
	Foreign	41.94%	25.53%	51.0%	51.0%	51.0%	51.0%
	Government	15%	51.01%	27.98%	45.6%	22.5%	8.56%
	Public	43.06%	23.46%	21.02%	3.4%	26.5%	40.44%
	Local	58.06%	74.47%	49.0%	49.0%	49.0%	49.0%
5.	Ownership in the operation phase						
	Foreign	41.94%	25.53%	51.0%	51.0%	51.0%	51.0%
	Government	15%	51.01%	9.76%	25.9%	20.47%	5.02%
	Public	43.06%	23.46%	39.24%	23.1%	28.53%	43.98%
6.	Ownership in the termination phase						
	Foreign	41.94% (Qtel)	24.9% (Rajawali Corp) 0.63% (Cemex)	52.6% (CAHB)	89% (Consortium of Stanchart and Astra)	56.33% (Sorak consortium)	51% (Farindo consortium)
	Government	15%	51.01%	0%	0%	0%	0%
	Public + Private	43.06%	24.09%	47.4%	11.0%	43.67%	49%

During the initiation and operation of the IEPSA process in Indonesia, there had been five times an Indonesian Presidency turnover. Former President Soeharto was still on his tenure during preparation of the IEPSA in Semen Gresik. It was the prerequisite demanded by IMF to restructure the economy and in turn IMF provided loan to the government. The IEPSA in Semen Gresik was continued during Habibie's Presidency in one year period of tenure. The second batch of IEPSA in Indonesia was the IEPSAs in Bank Niaga, Bank BCA, and Indosat which was prepared during Wahid's Presidency and proceeded by Megawati. Her tenure of presidency also provided path to the third batch of IEPSA which were BII and Bank Permata. Since October 2004, after Yudoyono's tenure as the President there had been no IEPSAs program planned but all the IEPSAs were still being operated. The turnover of presidencies during the initiation and operation of the IEPSAs is presented in table 10.2.

Table 10.2: The president and accompanying IEPSA case(s)

No	President	Tenure	IEPSA program planned
1.	Soeharto	1968 – 1998	Semen Gresik
2.	Prof. B.J. Habibie	1998 – 1999	Semen Gresik
3.	Abdulrahman Wahid	1999 – 2001	Bank Niaga, BCA, Indosat
4.	Megawati Soekarno Putri	2001 – 2004	Bank Niaga, BCA, BII, Bank Permata
5.	Dr. Susilo Bambang Yudoyono	2004 – 2009	-

10.2 First research question

The first research question was formulated as: what were the phases in the privatization through IEPSAs in Indonesia at the firm level in the banking, cement, and telecommunications industries? A comparison across the cases, in line with the framework in chapter three, shows that for each of the cases four phases were identified: a planning phase (10.2.1), a formation phase (10.2.2), an operation phase (10.2.3) and a termination phase (10.2.4). Table 10.3 shows the duration of each of these phases for each of the cases.

Table 10.3: Duration of the phase in months

Phase	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Planning	4	4	10	5	5	4
Formation	3	4	1	4	4	3
Operation	62	90	27	17	31	51
Termination	1	1	1	1	1	1
Total	70	99	39	27	41	59

The IEPSAs lasted an average of 56 months, i.e. four years and eight months. The shortest was the Bank Permata IEPSA which lasted less than 2.5 years. The longest was the Semen Gresik IEPSA which lasted 99 months, i.e. 8.25 years. The analysis and discussion in section 10.2.1 through 10.2.4 will provide insight into the causes of these differences.

10.2.1 Planning phase

The planning phase in general consisted of four steps: an announcement, a first bidding stage, a second bidding stage and concluding with a sales and purchase agreement.

Figure 10.1: The planning phase

The first step in the planning phase was the announcement of the intended IEPSA by the Indonesian government. The announcement was done in two different ways. In five of the six cases the announcement was a mass media announcement. The exception was the Semen Gresik case where instead of a mass media announcement invitation letters were sent. For the Semen Gresik situation, invitation letters were regarded as more effective than a mass-media announcement due to the low number of prospective partners.

The second step in the planning phase was the first bidding stage. In this stage a preliminary bid was submitted by prospective partners generally followed by due diligence. The preliminary bid was generally conducted before the due diligence since the bid would allow the Indonesian government to screen potential investors in particular when there were many potential investors. The preliminary bid was evaluated by the Indonesian government on four items: alliance experiences, financial performance, commitment to the alliance and financial capability. The due diligence involved assessment of the targeted alliance's resources and capabilities, such as technology, capital need, and strategies in terms of complementarity with those of the foreign investor which eventually resulted with determination of financial fair value of the company as documented in the offering price within the final bid.

Exceptions to this sequence of preliminary bid followed by due diligence were Indosat and Semen Gresik. In these cases the due diligence was conducted prior to the submission of the preliminary bid due to the low number of prequalified investors.

Another distinction in the process was that for the Semen Gresik case, none of the documents of commitment to the alliance existed in the first stage of bidding process. However, this was the first IEPSA alliance in Indonesia. For the subsequent IEPSAs, a document of commitment had become one of the prerequisites in the first stage of bidding process as required by IBRA and PPA due to the opposition of stakeholders in Semen Gresik as a result of lack of employment commitment on the side of Cemex.

Another difference in the cases was that since in the other previous IEPSAs the target of incoming funds could not be assessed, for the last IEPSA, i.e. Bank Permata, the preliminary bid was accompanied with Request for Qualification which primarily consisted of the offering price. By having this, the government representative (at the time was PPA) was able to set the price floors, a minimum price limit that means the price could not go lower than it possibly could, from the prospective partners in the second bidding stage as well as assess the amount of incoming fund from the divestment of its shares in the bank.

The third step in the planning phase was a second bidding stage. In general, the final bid was conducted after the preliminary bid and due diligence except in Semen Gresik where it was

undertaken after the restructuring of the offer due to the opposition of the shareholder to the composition of ownership. This involved the final bids from the foreign partners. This final bid was evaluated for price, clauses of the SPA, and business plan. Bid bond, as a reflection of the bidder's financial capability, was a prerequisite in the Bank Niaga situation. This was a result of the opposition of the stakeholder to the previous IEPSA of BCA, questioning its financial capability so that prospective investor should show its capability in this stage. Fit and proper test document was included in the banking IEPSAs since the regulator needed to participate in the assessment of the complementarity between bidder with the offered bank and its commitment to industry.

The fourth and last step in the planning phase was reaching a sales and purchase agreement. This involved a commitment from the foreign partner to the development of alliance performance, enhancement of synergy through complementary resources, support of financial capability, and to provide security of employment. In the banking IEPSAs, participation in the improvement of Indonesian Banking industry was included in the IEPSA as the alliance improved performance was vital and influenced the economic recovery.

In the four banking industry cases a fit and proper test was inserted into the process as Bank of Indonesia (BI), the regulator, was concerned about assessing the bidders. While in Indosat and Semen Gresik, the Ministry of State-Owned Enterprises had participated in the government team during assessment of the bidders. For three of the cases (Bank Niaga, BII, and BCA), this test took place within the final bid, while in one case (Bank Permata) it was undertaken after the winner in the final bid had been determined which was caused by the intention of PPA (government representative) to select the best bidder (before the fit and proper test). This avoided government and political intrusion (through Bank of Indonesia) to screen the best bidders, rather the bidders were selected by the PPA and promoted the candidate of winning bidders to BI to be further assessed.

Table 10.4: Steps in the planning phase

Planning phase	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
<i>Step 1: announcement</i>	Mass media	Invitation letter	Mass media	Mass media	Mass media	Mass media
Resulting number of potential investors	14 6 withdrew	3	23	22	27	20
<i>Step 2: preliminary bid and due diligence</i>	Due diligence followed by preliminary bid	Due diligence followed by preliminary bid	Preliminary bid followed by due diligence	Preliminary bid with request for qualification and subsequently followed by	Preliminary bid followed by due diligence	Preliminary bid followed by due diligence

Planning phase	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
				due diligence		
Resulting number of shortlisted investors	8	2	3	5	2	2
Step 3: second bidding	Final bid	Restructuring of the offer followed by final bid	Final bid	Final bid	Final bid	Final bid
Result selected investor	1	1	1	1	1	1
Step 4: sales and purchase agreement	SPA	SPA	SPA	SPA	SPA	SPA

The planning phase took generally four to five months. The exception to this was the Bank Niaga planning phase. The planning phase at Bank Niaga took ten months. This was due to a much lower selling share price than that in the stock exchange. To deal with this required prolonged discussions between government and the stakeholders. In this case, the first three steps of the planning phase were conducted in about three months, i.e. similar in duration as the other IEPSAs, but the fourth step (SPA) took about seven months in the midst of stakeholder opposition on the price offered by the foreign partner.

In conclusion, it was found that the first phase of forming an IEPSA was the planning phase. This phase lasted in general four to five months. The planning phase was characterized by four distinct steps: making an announcement, a first bidding stage, a second bidding stage, and reaching an agreement. Based on a comparison of the six cases it was found that slight changes to this process were found when; only a low number of potential investors were available, commitment was not documented, an industry regulatory body was involved, there was a different level of opposition or there were difficulties with accepting the offering price.

Figure 10.2: The planning phase - adjusted

10.2.2 Formation phase

The formation phase in general consisted of five steps: forming the Board of Directors (BOD) and Board of Commissioners (BOC), setting up a new vision and mission, formulation of strategies, developing an implementation plan, and acceptance from the commissioners.

Figure 10.3: The formation phase

The first step in the formation phase was forming the BOD and BOC.

Table 10.5: Forming the BOD and BOC

Formation phase	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Number of board of directors	5 local 4 foreign	4 local 2 foreign	4 local 3 foreign	8 local 2 foreign	5 local 2 foreign	6 local 2 foreign
Number of board of commissioners	2 local 4 foreign	3 local 2 foreign	4 local 4 foreign	7 local 3 foreign	6 local 4 foreign	4 local 2 foreign

Table 10.5 shows that in general, the composition of the Board of Directors in all cases had a majority of local members. The BOC composition is slightly different. In the case of Indosat there was a majority of foreign commissioners. This was due to the immense market opportunity in the telecommunications industry in Indonesia which triggered the foreign partner's intention to transfer activities and knowledge to the alliance through the BOC. The other exception was Bank Niaga which had an equal amount of local and foreign commissioners. This situation was established since the proportion of ownership was somewhat balanced which accounted for 51% of foreign partners and 49% of local partners including the government and investors in the bourse. With the same proportion of ownership with Bank Niaga, in latter banking IEPsAs, these banks had the majority proportion of local partners in BOD and BOC due to inclination of the foreign partners to avoid facing opposition with the stakeholder. Due to foreign minority of ownership in Semen Gresik (25.53% foreign and 74.47% local), the foreign partner was the minority in the BOD and BOC. Proportionately with the ownership structure, the BOD of foreign partner in Indosat was the minority composing of 5 local and 4 foreign.

The second step in the formation phase was setting up a new vision and mission. This involved board of directors (BOD). The exception was in BCA where the alliance did not formulate a new vision due to time constraint to establish a new one.

The third step in the formation phase was the formulation of strategies. In this step, the BOD formulated the strategies, which consisted of corporate, competitive and functional strategy.

The fourth step was the implementation plan. The BOD planned the activities so that the formulated strategies could be implemented.

The fifth and the last step was the acceptance by the BOC. This involved the BOD reporting upon the new vision, mission, formulated strategies, and the implementation plan to the BOC to seek for their agreement.

Table 10.6: Steps in the formation phase

Formation phase	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
<i>Step 1: Forming the BOD and BOC</i>	yes	yes	yes	yes	yes	yes
<i>Step 2: setting up new vision and mission</i>	vision and mission	vision and mission	vision and mission	vision and mission	vision and mission	mission
<i>Step 3: formulation of strategies</i>	corporate, competitive, functional	corporate, competitive, functional	corporate, competitive, functional	corporate, competitive, functional	corporate, competitive, functional	corporate, competitive, functional
<i>Step 4: implementation plan</i>	plan for activities	plan for activities	plan for activities	plan for activities	plan for activities	plan for activities
<i>Step 5: acceptance from the commissioners</i>	yes	yes	yes	yes	yes	yes

In conclusion, it was found that the second phase of forming an IEPSA was the formation phase. The formation phase was characterized by five distinct steps: forming the BOD and BOC, setting up a new vision and mission, formulation of strategies, implementation plan, and acceptance from the commissioners. The formation phase lasted in general three to four months. The exception was Bank Niaga (only one month) which was due to the discussion and formulation of a strategic plan between the partners during the prolonged discussion before the SPA. In other words, this shorter period came as a result of the longer period in the planning phase which was caused by the informal formulation of strategies.

Based on a comparison of the six cases it was found that slight changes to this process were found when a vision statement was not established. In such situations the new owners thought that the current mission statement was adequate to be the direction of the alliance and they needed more

time to set up a new vision. Besides that, in one of the cases foreign partner dominated the BOC. In this situation, the market gap between local and foreign was very wide so that foreign partner allocated more human resources in the alliance.

Figure 10.4: The formation phase - adjusted

10.2.3 Operation phase

The operation phase in general consisted of three steps: enhancement of human resources, organizational arrangement, and setting up control system.

Figure 10.5: The operation phase

The first step in the operation phase was the enhancement of human resources. In this step, the alliances enhanced the human resources through building the development program on human resources.

The second step in the operation phase was the organizational arrangement. This involved decentralization of the decision making to the branches and subsidiaries. As an exception, in Indosat, it involved the merger of the subsidiaries (IM3 and Satelindo) into the parent company. This was done to provide one stop service solution to the customers.

The third and the last step in the operation phase was the setting up of the control system. This included establishing an audit committee, compliance division, and key performance indicators. Slight difference occurred between the banking alliances and non-banking alliances. The reason

was that banking alliances were required by regulation to have the compliance division in accordance with the Bank of Indonesia requirement.

Financially, the performances of all IEPSAs were satisfactory in particular compared with that before the initiation of the IEPSA. But, only two cases (Bank Niaga and Bank Permata) accomplished performance in compliance with the objective of the alliance initiation. For example, Indosat and Semen Gresik experienced decreasing market share and Bank Permata and BII were not able to achieve the target profitability and asset size as expected by the objective in the initiation.

Table 10.7: Steps in the operation phase

Formation phase	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
<i>Step 1: enhancement of human resources</i>	development program	development program	development program	development program	development program	development program
<i>Step 2: organizational arrangement</i>	flattened organization merger of subsidiaries into parent company	no flattened organization decentralization to subsidiaries	no flattened organization decentralization to branches	no flattened organization decentralization to branches	no flattened organization decentralization to branches	no flattened organization decentralization to branches
<i>Step 3: setting up control system</i>	audit committee, key performance indicator	audit committee, key performance indicator	audit committee, compliance division, key performance indicator	audit committee, compliance division, key performance indicator	audit committee, compliance division, key performance indicator	audit committee, compliance division, key performance indicator
Financial	+	+	+	+	+	+
Fulfillment of objective (as of in the initiation)	-	-	+	-	-	+

In conclusion, it was determined that the third phase of forming an IEPSA was the operation phase. The operation phase was characterized by three distinct steps: enhancement of human resources, organizational arrangement, and setting up of the control system. The operation phase lasted between seventeen and sixty two months. The shortest period was Bank Permata and the longest one was Semen Gresik. In general, the IEPSAs of non-banking industries (telecommunications and cement industry) spent more time in the operation phase than those in the banking IEPSAs. It took more than five years in the telecommunications and cement IEPSAs to operationalize before the changes occurred in the internal and external conditions which led to the termination of the IEPSA. While in banking industries, it took less than five years before the alliances achieved above-average return performances leading to termination. This is due to the fact that stakeholders in the banking IEPSAs had less influence than those of the other types of IEPSA given that they were previously owned by private owners and taken-over by the government during the economic crisis. Eventually,

the regulations were developed based on the international standard (Bassel Standard) and relied on the past mistakes experiences in particular with the corporate governance.

Based on a comparison of the six cases it was found that slight changes to this process in particular to the organizational arrangement were found when; previous separated industry were available, existence of the already flat organization, and regulation

Figure 10.6: The operation phase - adjusted

10.2.4 Termination phase

The termination phase in general consisted of two steps: existence of a termination driver and termination.

Figure 10.7: The termination phase

The first step was existence of a termination driver. The reasons for termination were resulted from both drivers but one case from only an internal driver. The exception was the termination in the Indosat case. This was due to a combination of internal drivers (strategic objectives and expectancy) and external drivers (the emergence of regulation to forbid foreign dominant in telecommunications industry related with threat of monopoly) which was decided in court.

Another difference that occurred across the cases was the internal driver. The banking industry IEPsAs were all terminated due to the fulfillment of the objective, i.e. improving performances of the alliances on the side of Indonesian partners. This led to the sale of the remaining shares on the stock exchange. It was different in the cases of Indosat and Semen Gresik where there were

unfulfilled performances related to SPA. For Indosat there was the unfulfilled strategic objective of increasing dominance in the industry. For Semen Gresik there was the issue of ownership (clause in the SPA) and the expectancy that the alliance continued to increase the installed capacity.

The second step was termination. In general, the termination phase was exercised within one month. The termination took place when the alliances achieved above-average return performances. Nonetheless, within all cases partners had been well-prepared about the possibility to terminate. Therefore, it took only one month for the alliances to terminate. In spite of termination, since the final performances of the alliances were impressive, it can be implied that during the prior phases the partners did not undermine the termination rather they focused on enhancing the alliance accomplishment.

Table 10.8: Steps in the termination phase

Formation phase	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
<i>Step 1: existence of termination driver</i>	Internal due to unfulfilled SPA External (in court)	Internal due to unfulfilled SPA	Internal due to performance objective	Internal due to performance objective	Internal due to performance objective	Internal due to performance objective
<i>Step 2: termination</i>	Out of court Sell of the shares	Out of court Sell of the shares	Out of court Sell of the shares	Out of court Sell of the shares	Out of court Sell of the shares	Out of court Sell of the shares

Termination of alliances in Indosat and Semen Gresik IEPSAs were problematic and involved internal and external stakeholders. Nevertheless, both partners (in Indosat and Cement Gresik) as also occurred in other cases, opted diplomacy by selling of the shares to terminate the alliances rather than jeopardized future relationship with the hostile termination.

Based on a comparison of the cases, it was found that slight changes to this process in particular to the existence of termination driver were found when; threat of monopoly arouse, and unfulfilled objective.

Figure 10.8: The termination phase - adjusted

10.2.5 Knowledge contribution

IEPSA is the type of equity alliance classification in the form of equity arrangement. A vast amount of literatures suggest that IEPSA is appeared to be lack of research investigated than the other types of strategic alliances such as joint ventures and collaboration. There are common shares of equity in this form which one partner possesses equity of the other partner. The context of IEPSA is geographical area between (among) companies from different countries where the hosts were in Indonesia, a South East Asian country.

The life cycle of an IEPSA is discerned into planning and formation phases due a thorough negotiation and intensive analytical and political considerations prior to the SPA. Management, implementation, and evolution phases are combined into operation phase in the IEPSA. As such, the phases in the privatization through IEPSAs in Indonesia at the firm level in the banking, cement, and telecommunications industries are composed of planning, formation, operation, and termination. The planning phase took generally four to five months while the formation phase lasted in general three to four months. The operation phase lasted between seventeen and sixty two months. Eventually, the termination phase was exercised within one month.

In the IEPSA, the steps to be taken into considerations in the planning phase are; announcement, first bidding stage; preliminary bid and due diligence, second bidding stage, and sales and purchase agreement. In each of the steps the following factors need to be considered, they are; number of prospective partners, documented commitment, industry regulatory involvement, level of opposition, and acceptability of price.

In the formation phase, the steps to be taken into consideration in the IEPSA are forming the BOD and BOC, setting up new vision and mission, formulation of strategies, implementation plan, and acceptance from the commissioners. The factors to be considered in each of the steps are ownership percentage, market opportunities, time constraint, and informal formulation of strategies.

In the operation phase of the IEPSA, the steps to be taken into consideration are enhancement of human resources, organizational arrangement, setting up control system. The factors to be considered in each of the steps are previous separated subsidiary, already flat organization, regulation, and corporate governance.

In the termination phase of the IEPSA, the steps to be considered are existence of termination driver with threat of monopoly and unfulfilled objective as factors to be well thought of.

10.3 Second research question

The second research question was formulated as: Which factors and variables influenced these steps and phases? A comparison across the cases, in line with the framework in chapter three, shows that

factors were identified for each of the cases: stakeholder support, strategic match, and cultural understanding in the planning phase (10.3.1), internal support, and a strategic plan in the formation phase (10.3.2), human resource management, organizational arrangement, a management control system, evolved cultural understanding in the operation phase (10.3.3), and external and internal driver in the termination phase (10.3.4). Table 10.9 shows result of the factors.

Table 10.9: The result of factor influences

	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Planning Phase						
Stakeholder support	-	-	+	+	-	-
Strategic Match	+	+	+	+	+	+
Cultural understanding	+/-	-	+	+	+/-	+/-
Formation Phase						
Internal Organization support	+/-	-	+	+	-	-
Strategic Planning	+	+	+	+	+	+
Operation Phase						
Human Resource Management	+	+	+	+	+	+
Organizational Arrangement	+	+	+	+	+/-	+
Management Control System	+	+	+	+	+	+
Evolved cultural understanding	+	-	+	+	+	+
Termination Phase						
External Driver	-	+	+	+	+	+
Internal Driver	-	-	-	-	-	-

The analysis was carried out to obtain the adjusted model in accordance with the following arrangement. Firstly, the sub-factor and variable that are matched against the factor and sub-factor are preserved to be included in the adjusted model. Secondly, the acceptable exceptions (of the sufficiently matched sub-factors or variables) can be regarded as; the sub-factor or variable with a merely possessed one inconsistent data point in comparison with the factor, and with the sub-factor or variable having two slight differences of data points compared with the factor, i.e. the sub factor or variable is - or + and the factor is +/-, etc. Therefore, these sub-factors and variables of exceptions are preserved to be included in the adjusted model. Thirdly, sub-factors and variables unmatched appropriately against the factors and not classified as those with acceptable exceptions were removed from the initial model (as it was constructed in chapter 3). Fourthly, discussions on these exceptions were presented. It resulted with the revealed variables and their relationship with variables as were obtained in the model in chapter 3. Finally, having both appropriately matched variables and revealed variables yielded to the adjusted model of each factor within the phases of the IEPSA.

10.3.1 Planning Phase

Factors in the planning phase are stakeholder support, strategic match, and cultural understanding. All of the factors are embedded within the steps of: announcement, first bidding stage: preliminary bid and due diligence, second bidding stage, and sales purchase agreement in the planning phase (mentioned in 10.2.1). The accompanying variables consist of number of prospective partners, documented commitment, industry regulatory involvement, level of opposition, and acceptability of price. These steps are aimed to acquire partners that are complementary (as analyzed in the strategic match), have supports not only from the government and the company but also other external stakeholders (as analyzed in the stakeholder support). And in order to gain the stakeholder support there should be a trust and commitment between partners and stakeholder (as analyzed in the cultural understanding).

Stakeholder support

Based on the cross-case data in table 10.9, most of the IEPSAs faced opposition from the stakeholders except in the Bank Niaga and Bank Permata cases where the stakeholders supported the intention of the alliances. In Bank Niaga, the stakeholder support was obtained mostly from the high degree of internal relationship between directors, management, and employees while in the Bank Permata case it was due to the extensive prior company restructuring.

Table 10.10: The result of stakeholder support

	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Stakeholder support						
Internal organization support	+/-	-	+	+	+/-	+/-
Company restructuring	-	-	+	+	+	+
Plan for privatization	+	-	+	+	-	-
Society support	-	-	+	+	-	-
Change in ownership structure	-	+	-	-	-	-
Share price	-	-	+	+	+	-
Transparency of the privatization process	-	-	+	+	-	-

The steps obtained in section 10.2 were part of the framework and embedded in all factors within the phases. The description about how the steps embedded in the factors was presented in the initial section of each phase.

The data from table 10.10 shows that the only variable which showed the same pattern as stakeholder support was transparency of the privatization process. Another observation is that a negative value for one or both of the internal organization support variables, i.e. company restructuring and plan for privatization, is accompanied by two or more negative values for the three

society support variables, i.e. change in ownership structure, share price, and transparency of the privatization process. In other words, a neutral or lack of internal organization support occurs simultaneously with a lack of society support. The plan for privatization and the share price showed several commonalities with stakeholder support. It is also interesting to observe that another pattern can be observed across cases.

These observations point to a common pattern in each of the cases. This pattern is that the primary factor that determines stakeholder support is the transparency of the privatization process. If the process is not transparent, which is a societal support issue, then there is also no overall positive stakeholder support. The transparency of the process is influenced by two factors. One factor is the degree of internal relationship. This is an internal organization support issue and reflects whether the existing organization support is characterized by good relationships between employees, managers, directors and owners. The degree of internal relationship is influenced by the company restructuring which in turn is influenced by the plan for privatization.

The other factor that influences the transparency of the process is the share price. The share price is influenced by a motivation to handle a budget deficit, and by factors such as the existence of an unprecedented moment, share price in the bourse, floor price, and a limited number of shares on the bourse.

For example, in the Bank Permata case (see chapter seven), the transparency of the process was high. This was positively influenced by the share price (the price paid was above the fair value) and by positive internal relationships which were the result of the extensive restructuring. This provides a contrast to the transparency in the BCA case (see chapter nine). In this case there were issues with the share price as well as with the degree of internal relationships which, despite restructuring and the plan for privatization remained problematic.

Figure 10.9: Stakeholder support – adjusted

All in all, stakeholder support is one of the considerations that partners should take into account in the planning phase.

Strategic match

The strategic match is composed of capacity, complementarity, and strategic importance. From the cross-case dataas presented in table 10.11, they suggested that all cases had good strategic match stemmed from good capacity, complementarity, to strategic importance.

Table 10.11: The result of strategic match

	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Strategic match						
Capacity	+	+	+	+	+	+
Attractiveness of macroeconomic conditions	-	-	-	+	-	-
GDP growth	-	-	-	+	-	-
Currency rate	-	-	-	+	+/-	-
Attractiveness of market	+	+/-	+/-	+	+	+
Market share	+	+	-	+	+/-	+
Growth of market	+	-	+	+	+	+
Alliance track record	+	+	+	+	+	+/-
Partner's experience	+	+/-	+/-	+	+	+/-
Partner's successfulness	+	+	+	+	+	+/-
Attractiveness of product or service	+	+	+	+	+	+
Quality of product or service	+	+	+	+	+	+
Innovativeness of product or service	+	+	+	+	+	+
Attractiveness of technology	+	+	+	+	+	+
Technology of product or service	+	+	+	+	+	+
Information technology	+	+	+	+	+	+
Attractiveness of financial performance	-	-	+/-	+/-	+/-	+/-
Profitability	-	-	-	-	-	-
Growth of revenue	-	-	+	+	+	+
Complementarity	+	+	+	+	+	+
Related to the attractiveness of market	+	+	+	+	+	+
Related to the strategy	+	+/-	+	+	+	+
Related to the attractiveness of resources	+	+	+	+	+	+
Strategic importance	+	+	+	+	+	+
Pressure of continuity	+	+	+	+	+	+
Pressure of time on alliance	+	+	+	+	+	+
Alternative to cooperation	+	-	-	-	-	-

From the cross-case data in table 10.11, it can be shown that the sub-factors of capacity, complementarity, and strategic importance were appropriately matched with the strategic match.

Observations in the capacity sub factor showed that all cases had positive growth of market except in Semen Gresik when the IEPsA was undertaken during the abyss of the economic crisis. In terms of market share, the SOEs and BTOs were prominent companies in the Indonesian industry except Bank Niaga and BII. Variables that showed the same pattern as capacity were attractiveness of product or service and attractiveness of technology while variables which nearly appropriately matched with the exceptions were attractiveness of market and alliance track record.

Another observation in the complementarity sub-factor showed that all cases had positive variables and showed the same pattern with the complementarity except in terms of the complementarity related to the strategy in Semen Gresik. In this case of complementarity, local partner was still in the state of implementing the restructurization strategy which was different from the aggressive growth strategy of the foreign partner. Variables that were appropriately matched were complementarity related to the attractiveness of market and resources with the exception was complementarity related to the strategy.

The last observation was in the strategic importance sub-factor. Variables that were appropriately matched were pressure of continuity and pressure of time on alliance while alternative to cooperation was negatively matched. The reason was that there were ample of alternatives or options in the IEPSAs except in the case of Semen Gresik when there were only two prospective partners participated in the planning phase. As such, alternative to cooperation variable has negative influence to the strategic match.

Besides the existences of macroeconomic crisis in five out of the six cases, the IEPSAs were still carried on, one of the means due to complementarity of resources and capabilities leading to positive strategic match. In other words, despite existences of problems in the capacity partners valued the complementarity and strategic importance of the IEPSAs in such a way that all of the complementarities of the alliances appropriately influenced the strategic match. Exception was on the complementarity of strategy in Semen Gresik IEPSA. In this instance, to retaliate with lack of complementarity of strategy, the foreign partner focused on enhancing the complementarity related to the attractiveness of market and resources through imposing on the standardization of system while endorsed adaptation to local needs. It can be implied that the strategic match between partners in the cases were not due to a matter of luck rather partners valued long-term result than short-term gain in the IEPSAs. In such a way, they proceeded with the intention to initiate the IEPSAs despite any drawbacks, such as poor financial performances, which were affected by the downturn of macroeconomic situations.

Evidences in Bank Niaga and Bank Permata suggested that strategic match influenced positively to the cultural understanding provided that the stakeholder support had been in existence prior to the intended IEPSAs. But, it could not be applied to other cases since the stakeholder supports were non-existence before the intention of the IEPSAs.

Figure 10.10: Strategic match - adjusted

All in all, strategic match is one of the considerations that partners should examine since it will influence planning phase.

Cultural understanding

The cross-case data in table 10.12 suggested that in the planning and formation phases, the trust level varied from non-existence in Indosat, Semen Gresik, BII, and BCA to conducive in Bank Niaga and Bank Permata with the commitment level differed from ordinary in Semen Gresik to strong in the rest of the IEPSAs.

Table 10.12: The result of cultural understanding

	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Cultural understanding						
Trust	-	-	+	+	-	-
Share of communication	-	-	+	+	-	-
Commitment	+	+/-	+	+	+	+
Nurture of the alliance	+	+/-	+	+	+	+

The data from table 10.12 shows that there were often inconsistencies between the trust and commitment except in Bank Niaga and Bank Permata. This suggested that commitment of the partners either on the IEPSA or to the enhancement of industry can be promptly established between partners. But the trust took longer time to be established as indicated in Indosat, Semen Gresik, BII, and BCA. This is due to the fact that there were lacks of stakeholder support in these IEPSAs which affected negatively to the lack of share of communication which later influenced the inadequacy of trust.

Share of communication varied from existence in Bank Niaga and Bank Permata to non-existence in Indosat, Semen Gresik, BII, and BCA. The lack of share of communication in Semen Gresik was due to foreign partner's despondency about restructurization of the bidding offer from 35% to 25.53% which was demanded by the stakeholder.

Another observation is that there were existences of nurture of the alliance in all IEPSAs except in Semen Gresik. In this instance, restructurization of the bidding offer was also the reason to the ordinary nurture of the alliance between the partners in Semen Gresik and hence to the ordinary commitment. It can be deduced that assurance of the bidding offer influenced both variables. In other words, restructurization of the bidding offer in Semen Gresik caused the deterioration of both partners to nurture of the alliance and share of communication.

From the cross-case data, it can be suggested when there was existence of stakeholder support, it would likely influence to the conducive cultural understanding (positive trust and commitment) or vice versa.

The cultural understanding has reciprocal relationship with the trust and commitment. In other words, high degree of evolved cultural understanding will enhance to the high degree of trust and commitment between partners.

10.3.2 Formation Phase

commissioners in the formation phase (mentioned in 10.2.2) with the accompanying variables of ownership percentage, market opportunities, time constraints, and informal formulation of strategies. These steps are aimed to formulate and implement the strategy and gain internal support. Forming the BOD and BOC, setting up new vision and mission, formulation of strategies, and acceptance from the commissioners are embedded in the strategic plan sub-factor while implementation plan is embedded in both internal support and strategic plan.

Internal organization support

Based on the cross-case data in table 10.13, internal organization support differed from ordinary (Semen Gresik, BII, and BCA) to attractive within the rests of the cases. These were stemmed from various participation in the implementation of strategic planning from non-existence (Semen Gresik, BII, and BCA), ordinary (Indosat), to existence in Bank Niaga and Bank Bali. All in all, existences of commitments were possessed in all cases.

Table 10.13: The result of internal organization support

	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Participation in the implementation of strategic planning	+/-	-	+	+	-	-

In general, partners in the IEPSAs addressed guarantee on employment in such a way that people ultimately participated in the implementation of strategic planning. An exception was in Semen Gresik, where foreign partners did not pledge to avoid downsizing of employees and neither have fit in the strategic objective between the partners. In BII and BCA, employment security issues were addressed but still people who felt threatened abandoned the alliances. This situation was due to the new different cultures endorsed by the foreign partner which might threaten managers originated from the old clan.

From the cross-case data of internal organization support and cultural understanding in Bank Niaga and Bank Permata, it was revealed that existence of internal organization support would positively influence the cultural understanding or vice versa. This influence was established since the existence of cultural understanding endorsed the participation in the implementation of strategic plan. Formulation of successful strategic plan in Bank Niaga and Bank Permata had elevated the trust and commitment as a prerequisite to cultural understanding as well as ensured the guarantee on employment in the alliances.

Figure 10.12: Internal organization support – adjusted

Overall, internal organization support influences the implementation of the strategic plan by ensuring participation of the implementation of strategic plan in the IEPsA. This is established through the participation of the stakeholder in the implementation of strategic plan. Existences of positive cultural understanding, guarantee on employment, and fit in objective influence positively to the participation in the implementation of strategic plan and furthermore to the internal organization support. In contrast, existence of difference between the current culture and the old clan culture inhibit the participation in the implementation of strategic plan and likewise to opposition in the internal organization.

Strategic plan

In all cases, partners had established strategic plan which was composed of formulation of strategies and its implementation plan. In other words, they formulated the strategic plan which reflected the commitment to the alliances.

Table 10.14: The result of strategic plan

	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Commitment	+	+	+	+	+	+

Cross-case data in tables 10.10 and 10.14 shows that presence of commitment in Bank Niaga, Bank Permata, and Indosat had contributed to the existence of internal organization support in the IEPsAs. Nevertheless, the situation could not be applied to the cases of BII and BCA since the alliances did not guarantee on the employment to the employees. Exception case was in Bank Niaga where faster time was consumed in the process of formulating the strategic plan due to the existence of informal meeting between the partners on strategy formulation prior to the SPA which took five to six months longer than were of the other cases. Likewise, in Bank Niaga, the commitment could be built and enhanced in a relatively shorter period time due to the existence of informal meeting on strategy formulation.

Figure 10.13: Strategic plan - adjusted

Overall, strategic plan is an important factor in the formation phase. It also influences the internal support, in particular with the implementation plan and its control which constitute the contribution of internal stakeholder in the functional divisions and the accompanying activities. In other words, this requires and is developed based on the commitment of the internal stakeholder and partners. Successful formulation of strategic plan enhances the internal organization support and vice versa since it is composed of detailed implementation plan in such a way that everyone in the organization participates in the implementation.

10.3.3 Operation Phase

Factors in the operation phase are composed of human resource management, organizational arrangement, and management control system. All of the factors are embedded within the step of enhancement of: human resources, organizational arrangement, and setting up control system in the operation phase (mentioned in 10.2.3) with the accompanying variables of number of previous separated subsidiary, already flat organization, regulation, and corporate governance.

In general, the cross-case data of the factors in operation phase were good. They were reflected with good variables in human resource management and management control system factors. An exception was in the flattened organization variable of the organizational arrangement factor such as in Semen Gresik, Bank Niaga, Bank Permata, BII, and BCA. In these instances, the variable (flattened organization) was considered as ordinary.

Human resource management

Evidences on the human resource management suggest that all partners in the IEPSAs had established and enhanced the collaborative people.

Table 10.15: The result of human resource management

	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Human resource management						
Collaborative people	+	+	+	+	+	+

The cross-case data indicated that that human resource enhancement was one of the resources to be improved in order to gain sustainable above average performances. An exception was in the IEPSA of Bank Permata where the opportunistic behavior of the foreign partner by increasing the personal and administrative expenses had influenced negatively to the effectiveness of human resource management and thus plunged the profitability of the alliance. As the cultural understanding in the alliances evolved positively such as those in Indosat, BII, and BCA, there were inclinations of alliances to put more emphasis on the human resource management which in turn re-influenced the cultural understanding. Evidences also suggested that successful implementation of human resource management influenced positively to the management control system.

Figure 10.14: Human resource management - adjusted

All in all, human resource management is important in the operation phase since it is established to improve the IEPSA's learning capability, cooperation and conflict resolution, trust, candor, and communication, and commitment to the objective setting. It has reciprocal causal effect with the evolved cultural understanding and influence the management control system.

Organizational arrangement

In terms of organizational arrangement, all IEPSAs can be characterized with possessing decentralization in the decision making so that it perfectly related with the organizational arrangement.

Table 10.16: The result of organizational arrangement

	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Organizational arrangement						
Flattened organization	+	+/-	+/-	+/-	+/-	+/-
Decentralization of decision making	+	+	+	+	+	+

Flattened organization only occurred in the case of Indosat when partners introduced the new value and thus required subsidiaries to be merged into the corporation. In order words, there was no strong commonality between flattened organization with the organizational arrangement. These evidences implied that decentralization of decision making in IEPSA was mandatory and the organization structure of most IEPSAs was already flattened by the time the alliances formed. In the IEPSA of BII, new value enhancement from the partners to change the old family clan was promoted to establish a successful organizational arrangement. Cross-case data also revealed that effectiveness of organizational arrangement in the IEPSAs had positive influenced to the management control system in the alliances and re-influenced the organizational arrangement.

Figure 10.15: Organizational arrangement - adjusted

Overall, organizational arrangement is vital in the operation phase in order to achieve responsiveness and flexibility so that the IEPSA can adapt to the changes in environment. Organizational arrangement is determined by flattened organization and decentralization of decision making. In this regard, decentralization of decision making is mandatory. As indicated in the adjusted model, in the situation of partners imposed on new value enhancement, this will influence the flattened organization and decentralization of decision making.

In terms of the order of importance variables, the most important variable was decentralization of decision making (since it perfectly matched) and followed by flattened organization.

Organization arrangement has causal effect with management control system. In other words, effective implementation of organizational arrangement influences positively to the management control system and re-influence the organizational arrangement.

To adapt to the dynamic environment as an organizational requirement of a strategic alliances as mentioned by Bleeke and Ernst (1991) and Callahan and Mac Kenzie (1999), an IEPSA needs to decentralize its decision making. This can be enhanced when partners in an IEPSA need to endorse new value to the alliance.

Management control system

From the cross-case data, all cases had positive variables within the management control systems consisting of planning, control structure, and control process.

Table 10.17: The result of management control system

	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Management control system						
Planning	+	+	+	+	+	+
Control structure	+	+	+	+	+	+
Control process	+	+	+	+	+	+

The cross-case data in table 10.17 shows that that any positive factors in the operation phase (human resource management and organizational arrangement) which were supported by the accompanying positive variables (collaborative people, flattened organization, and decentralization of decision making) would influence positively to the management control system. In banking IEPSAs, the management control system was emphasized on the corporate governance and risk management as the anticipation to avoid the similar past mistakes occurred in the banks as happened before the IEPSAs.

Evidences in all cases suggested that positive evolved cultural understanding influenced positively to the management control system which in turn re-influenced to the evolved cultural understanding.

Figure 10.16: Management control system - adjusted

All in all, management control system is an important factor in the operation phase since it is established as one of the control mechanisms in an IEPsA. Successful implementation of planning, control structure, and control process brings into successful achievement of management control system. Besides that, there is a causal effect between evolved cultural understanding and management control system. Human resource management is another factor that influences the management control system. According to Das and Teng (2001), control in the strategic alliances consists of behavior control, output control, and social control. Behavior control is also called process control, since it focused on the process which turns appropriate behavior into desirable output (Das & Teng, 2001: 260). Output control is about result orientation and whether or not the alliance achieves the objectives (Das & Teng, 2001). Social control aims at reducing the discrepancies in goal preferences of organizational members through the establishment of common culture and values (Das & Teng, 2001). In relation to the adjusted model of management control system, behavior control is located within the human resource management in which collaborative people are required by the partners in the IEPsA. In the alliance, collaborative people who concern for others and self are the ones control the required behavior in the IEPsA. Planning, control structure, and control process have the role to establish an output control in the alliance. Social control is embedded in the evolved cultural understanding which is composed of trust and commitment. This factor (evolved cultural understanding) is established to accommodate the establishment of common culture and values.

Evolved cultural understanding

In the evolved cultural understanding, trust level as one of the components varied from non-existence in Semen Gresik to positive in the rest of the IEPSAs while share of communication existed in all IEPSAs with the exception in Semen Gresik.

Commitment, as another component in cultural understanding, differed from ordinary in Indosat, Semen Gresik, Bank Permata, and Bank International Indonesia to existence in Bank Niaga and BCA. Nurture of the alliance resided in all IEPSAs with the exemption in Semen Gresik. Performance of the IEPSAs varied from unattractive in Indosat, Bank Permata, and BII to attractive in Semen Gresik, Bank Niaga, and BCA.

Table 10.18: The result of evolved cultural understanding

	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
Evolved cultural understanding						
Trust	+	-	+	+	+	+
Share of communication	+	-	+	+	+	+
Commitment	+/-	+/-	+	+/-	+/-	+
Nurture of the alliance	+	-	+	+	+	+
Performance of the alliance	-	+	+	-	-	+

Cross-case data in table 10.18 shows that variables appropriately matched with the evolved cultural understanding were share of communication and nurture of the alliance while performance of the alliance was not matched with the factor. The cross-case data of Bank Permata and BII revealed similarities of all the variables.

Trust was resulted from the communication and socialization of the program which were intensified in Indosat, BII and BCA. Nevertheless, the remaining lack of trust level in Semen Gresik where partners had no communication program to spread the objectives to the entire organization was originated from an unclear clausal SPA on ownership. This issue was about whether the government had a put option or an obligation to sell the shares in such a way that Cemex became the dominant owner in the alliance. Trust can be enhanced or diminished by the degree commitment between partners. For instance, when there is an opportunistic behavior occurring in one of the partners, this situation will reduce the degree of trust. In contrast, high commitment of the partners will enhance the degree of trust.

Nurture of the alliance was appropriately matched with the evolved cultural understanding. Unattractive performances were regarded by partners due to the fact that the accomplishments not in line with the objectives. Therefore, there was no strong commonality between the alliance performances with the evolved cultural understanding.

The cultural understanding had evolved positively in comparison with the cultural understanding in the initial phases (planning and formation), in particular with the cases in BII and BCA where the partners in the banking alliances shared communication more intensively in the operation phase. This implied that the evolved cultural understanding in the operation phase was influenced by the cultural understanding in the initial phases. The evolved cultural understanding influenced by previous cultural understanding and management control system has reciprocal relationship with the trust and commitment. In other words, high degree of evolved cultural understanding will enhance to the high degree of trust and commitment.

From the cross-case data, presence of evolved cultural understanding positively influenced the management control system or vice versa except in Semen Gresik. This exception was due to the local insistence on getting rid of the foreign partner from the alliance so that keeping up the good performance was important to preserving a high profitability once the foreign partner was dismissed.

Successful implementation of human resource management in all cases had influenced positively to the management control system which in turn re-influence to the human resource management through sharing of communication and nurturing the alliance.

Evidences also suggest that cultural differences did not inhibit the IEPs. Rather, all IEPs improved in the performances besides opposition from stakeholders in particular with such certain cases as Indosat, Semen Gresik, BII, and BCA. Even, for the western and eastern international strategic alliances such as those in Bank Permata and BCA, the performances ameliorated. In these instances, trust and commitment diminished the risk of cultural differences between the partners.

All in all, evolved cultural understanding is important in this phase. It is influenced by trust and commitment. Factors, such as human resource management and management control system have causal effect to the evolved cultural understanding. Besides that, cultural understanding in the initial phases influences the evolved cultural understanding in the operation phase.

10.3.4 Termination Phase

Factors in the termination phase are external driver and internal driver. All of the factors are embedded within the step of: existence of termination driver and termination in the termination phase (mentioned in 10.2.4) with the accompanying variables of threat of monopoly and unfulfilled objective.

External Driver

External driver was the reason to the Indosat termination. It was decided in court as the consequence of the emergence of regulation to forbid domination of a certain company to possess more than 50% market share in the telecommunications industry.

Internal Driver

Terminations in all IEPSAs were due to the internal drivers in terms of strategic objectives regardless of whether they were accomplished. In banking IEPSAs, accomplishment of strategic objectives in terms of improved performances was the reason of Indonesian partner to selling the remaining shares in the IEPSAs to the investors in the stock exchange. In contrast, partners' incapability to accomplish the strategic objectives of the IEPSA in Semen Gresik (increase production capacity and market share) and Indosat (increase market share) was the reason of the IEPSA to terminate. In Semen Gresik, partners' failure to meet synergy was another reason to termination in particular related with the strategic objectives and expectancy.

Table 10.19: The result of factors in termination phase

	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
External Driver						
External environment	-	+	+	+	+	+
Internal Driver						
Strategic objectives	-	-	-	-	-	-
Expectancy	+	-	+	+	+	+
Corporate leadership	+	+	+	+	+	+

Figure 10.18: Internal driver - adjusted

Altogether, the termination of an IEPSA is caused by internal and external driver according to the sequence of importance. In particular with the internal driver, it is derived by the reasons related to and in accordance with the sequence of importance: strategic objectives, expectancy, and corporate leadership. As presented in the adjusted model, given failure of partners' resources to meet synergy, it will influence to the strategic objectives and expectancy. In the external driver, change of external environment is the sole reason to termination.

These drivers confirm Kanter (1994), Sierra (1995), Porter (1998), and Mockler (1999). In particular with IEPSA, failure to meeting synergy is the factor that influences the internal driver of strategic alliance termination.

To summarize, cross-case data revealed that factors in each of the IEPSAs was inclined to turn out to be attractive in the operation phase. In other words, cases with unattractive factors in the planning phase such as those in Indosat, Semen Gresik, BII, and BCA, had converted to mostly attractive in the operation phase. In these instances, IEPSAs experienced evolved factors from planning, formation to operation phases.

10.3.5 Knowledge contribution

Figure 10.9 revealed that the transparency is influenced by the internal organization support and the share price which is derived from company restructuring, opposition from a number of managers and employees, reducing of budget deficit, unprecedented moment, share price in the bourse, limited shares in the bourse, existence of floor price, and plan for privatization. Figure 10.10 also suggested that when there is a lack of trust or a state of distrust exists in the organization-stakeholder relationship, transparency is a required condition for rebuilding trust and commitment in the relationship. The concept of transparency is linked to openness and is described as being both a relational characteristics as well as an environmental condition for organizational processes.

Figure 10.10 suggested in the factors of an IEPSA in the planning phase there is existence of causal relationship between cultural understanding and strategic match through the pressure on continuity of the partners toward the IEPSA as well as influence of strategic match on the stakeholder support through the cultural understanding acquired from the strategic match, complementarity, and strategic importance over the resources and capabilities of the partners. Besides that motivation of adaptation to local needs and standardization of system can influence the complementarity sub factors in the strategic match.

From figure 10.11, trust in the planning phase of an IEPSA is obtained through the sharing of communication which is influenced by the stakeholder support and assurance of bidding offer. The sharing of communication can consist of both goodwill and competence. They are endorsed by the stakeholder who has prior knowledge about the partners and the intended IEPSA due to the positive influence of strategic match to the stakeholder support. Related to competence, an existence of assurance of bidding offer influences positively to the share of communication since it consists of assurance about the transfer of competence, and capabilities between partners in the IEPSA. The model refines Das and Teng (2001) who stated that trust is composed of goodwill trust and competence trust. Goodwill trust is about one's good faith, good intentions, and integrity. It is about whether a firm has a reputation for dealing fairly and caring about its partner firm's welfare in alliances (Das & Teng, 2001:256). Competence trust is based on the various resources and capabilities of a firm (Das & Teng, 2001: 257).

From figure 10.12, it can be obtained that strategic plan influences internal organization by having plans which convince the entire organization to participate in the implementation and provide guarantee of employment. Besides that, a formulated strategic plan influences positively to the cultural understanding which in turns endorse the participation in the implementation of strategic plan. Other factor that enhances participation is the existence of fit in objective between (among) partners while difference between (among) the current culture of the partners with the old clan culture hinders participation.

Figure 10.13 suggested that commitment is required by the partners to complement and exploit the resources to obtain capabilities as sources of the alliance's competitive advantage. Existence of informal meeting on strategy formulation by the prospective partners on strategy formulation may enhance the commitment. The state of strategic plan which comprises commitment of partners in terms of resources has causal effect to the internal organization support for existence of internal organization support enhances the implementation of strategic plan and vice versa.

In terms of human resource management as presented in figure 10.14, collaborative people are required in the IEPSA to tackle the processes of exchange and adaptation, i.e. facilities and

resources sharing, knowledge transfers, and cultural adaptation between (among) the partners. Nevertheless, opportunistic behavior such as overburden the personal expenses in the IEPsA can hinder the establishment of collaborative people in the IEPsA. Besides that, human resource management influences positively to the management control system in the alliance in all sub-factors such as planning, control structure, and control process and has causal effect with the evolved cultural understanding since effective human resource management enhances the share of communication and commitment of the alliance in the IEPsA and therefore improved performance of the alliance can be expected.

To adapt to the dynamic environment as an organizational requirement of a strategic alliances, an IEPsA needs to decentralize its decision making. This can be enhanced when partners in an IEPsA endorse new corporate value to the alliance.

In terms of management control system as presented in figure 10.16, human resource (one of the resources which are managed in the IEPsA) influences the management control system through controlling, structuring, and processing the system which can be referred as a 'hard-side' of control system. Collaborative people are required by the partners in the IEPsA. They are the ones who concern for others and self and control the system in the IEPsA in such a way that it is able to achieve the objectives which can be referred as 'objective' of control system. Besides that evolved cultural understanding which is composed of trust and commitment can enhance the management of control system. This factor (evolved cultural understanding) is established to accommodate the establishment of common culture and values. This can be referred as the 'soft-side' of control system.

From figure 10.17, it can be obtained that evolved cultural understanding is composed of trust and commitment. The evolved cultural understanding in accordance with the model is acquired by the establishment of management control system consisting of planning, control structure and control process as well as cultural understanding in the previous phases (planning and formation). As the objective of the partners can be fulfilled in the IEPsA through the effective management control system, this enhances the evolved cultural understanding and vice versa. Trust is built through share of communication of the partners and people in the IEPsA as well as effective human resource management while commitment is obtained by partners' nurture of the alliance. Nonetheless, human resource management can influence the partner's nurture of the alliance while unclear SPA may influence negatively to the share of communication and partner's nurture of the alliance. As such, human resource management can influence the evolved cultural understanding and vice versa.

Termination of an IEPSA is influenced by internal and external drivers. This confirms Kanter (1994), Sierra (1995), Porter (1998), and Mockler (1999). In particular with IEPSA, failure to meeting synergy is the factor that influences the internal driver of strategic alliance termination.

10.4 Third research question

The third research question was formulated as: How were the relationships between (among) factors and variables was created? A comparison across the cases, in line with the framework in chapter three, shows that for each of the cases relationship were identified: a relationship of the factors (10.4.1).

10.4.1 Relationship of the factors

From the cross-case data in general, evidences suggest that in the initiation phases (planning and formation), the stakeholder support influenced positively to the cultural understanding which afterwards also influenced the stakeholder support and internal organization support. Evidence which supported the cultural understanding influenced positively the stakeholder support was the data in Bank Niaga which had a solid relationship reflected with the non-existence of labor union. Strategic match also influenced the cultural understanding and stakeholder support which were supported by the data in Bank Niaga and Bank Permata when strategic match influenced and enhanced the cultural understanding (which had been conducive before the initiation of the alliances) in the two cases.

In general, the internal organization support not only influenced positively and re-influenced the cultural understanding, but also influenced the strategic planning which afterwards re-influenced the internal organization support.

Generally, in the operation phase, cultural understanding influenced the evolved cultural understanding. Evolved cultural understanding together with human resource management and organizational arrangement influenced positively to the management control system. As such, positive implementation of management control system re-influenced positively to the evolved cultural understanding. Relationship of the factors is presented in table 10.20.

Table 10.20: Relationship of the factors

No.	Influencing factor	Influenced factor	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
1.	Stakeholder support	Cultural understanding	√	√	√	√	√	√
2.	Strategic match	Cultural understanding	-	-	√	√	-	-
3.	Strategic match	Stakeholder	-	-	√	√	-	-

No.	Influencing factor	Influenced factor	Indosat	Semen Gresik	Bank Niaga	Bank Permata	BII	BCA
		support						
4.	Cultural understanding	Stakeholder support	-	-	√	-	-	-
5.	Cultural understanding	Internal organization support	√	√	√	√	√	√
6.	Internal organization support	Cultural understanding	√	√	√	√	√	√
7.	Internal organization support	Strategic Planning	√	√	√	√	√	√
8.	Strategic planning	Internal organization support	√	√	√	√	√	√
9.	Human resource management	Management control system	√	√	√	√	√	√
10.	Organizational arrangement	Management control system	√	√	√	√	√	√
11.	Management control system	Evolved cultural understanding	√	√	√	√	√	√
12.	Evolved cultural understanding	Management control system	√	√	√	√	√	√

In the planning phase, the trust level was initially established by the socialization upon policy of the alliance initiation to the stakeholder. This initial trust level influenced the stakeholder support and in turn re-influenced the trust level. The strategic match enhanced the stakeholder support and in terms of strategic importance also influenced the trust level.

In the formation phase, the trust level which was inherited from planning phase influenced the internal support which in turn re-influenced the trust level depending upon the management and employee support in the alliance. The strategic plan which was supported by the internal stakeholder in the implementation in return re-influenced positively the internal stakeholder of the alliance so that it also influenced the trust level.

In all cases, management control systems were relatively easier to implement provided that planning, control structure, and control process were positives due to the increasing trust level in such a way that structure and process mechanism were exercised in the ambience of trust. In banking industry, the Good Corporate Governance and stricter rules on compliance had improved the effectiveness of management control systems implementation. Likewise, the trust level had improved (evolved) due to the increasing performance level of these factors; organization arrangement, and human resource management.

Therefore, the relationship of the factors is presented in figure 10.19.

Figure 10.19: Relationship of the factors

10.4.2 Knowledge contribution

Along the life cycle of an IEPSA, relationships of the factors can be obtained. In the planning and formation phase, strategic match influences positively to the stakeholder and has reciprocal influences with cultural understanding while stakeholder support has reciprocal influences with cultural understanding. These relationships suggest that stakeholder support is initially established through the information related to the prospective partners before or during the due diligence to determine the strategic match between the prospective partners. Cultural understanding which is composed of trust and commitment is established and enhances strategic match and stakeholder support as well as the internal organization support in the formation phase. In other words, strategic match, cultural understanding, stakeholder support, and internal organization support can be enhanced with reciprocal relationships one to another. Internal organization support has reciprocal relationships with strategic planning. Besides that, cultural understanding influences the evolved cultural understanding in the operation phase. But, evolved cultural understanding can change due to its reciprocal relationships with human resource management and management control system. The latter is influenced by both human resource management and organizational arrangement.

10.5 Conclusions

In this chapter, the answers of research questions were provided. The answers were obtained from the cross-case analysis to all cases. The first research question was undertaken to describe the life

cycle of the alliances so that the phases of the alliance including were able to be revealed. The second research question was aimed to analyze the cross-case data of the factors and variables through which theory was able to be developed. The third research question was answered by the elaboration of the prior cross-case analysis so that the relationship between the factors within the lifecycle was able to be determined.

Cross-case analysis is very beneficial to enrich the discussions analysis of the phenomena by comparing them into the cross-cases. Enrichment of the discussions analysis has already revealed the steps in the life cycle of an IEPSA, obtained the adjusted model of the factors in each of the phases, as well as unveiled the relationship of the factors.

CHAPTER 11: CONCLUSIONS, REFLECTIONS, AND RECOMMENDATIONS

This chapter provides the conclusions, reflections, and recommendations of the research undertaken. Conclusions are presented in section 11.1, while reflections are discussed in section 11.2, and recommendations are provided in section 11.3.

11.1 Conclusions

This section provides conclusions which relate with the answers to the central research question: How did the privatization process through International Equity Placement Strategic Alliance take place in Indonesia? They were obtained by elaborating answers to each of the accompanying research questions in the following sub-sections. Research question 1 is discussed in section 11.1.1, research question 2 is discussed in section 11.1.2, and research question 3 is discussed in section 11.1.3.

11.1.1 Phases

This section presents answers to research question 1: What were the steps/phases in the privatization through IEPSAs in Indonesia at the firm level in the banking, cement, and telecommunications industries and how were they formulated?

IEPSA is the type of equity alliance classification in the form of equity arrangement. A vast amount of literatures suggest that IEPSA is appeared to be lack of research investigated than the other types of strategic alliances such as joint ventures and collaboration. There are common shares of equity in this form where one partner possesses equity of the other partner. The context of IEPSA is geographical area between (among) companies from different countries.

The previous authors who researched about phases of strategic alliances mentioned various phases in the life cycle of strategic alliances. Faulkner (1995) stated that it consists of formation, management, and evolution while Lorange and Roos (1993) mentioned that it comprises of formation, implementation, and evolution. Mulyowahyudi (2001) stated that it is composed of formation, operation, and termination. In the IEPSA, the previous formation phase of these aforementioned authors is discerned into planning and formation phases due to a thorough negotiation and intensive analytical and political considerations prior to the SPA. Management, implementation, and evolution phases are combined into operation phase in the IEPSA. As such, the phases in the privatization through IEPSAs in Indonesia at the firm level in the banking, cement,

and telecommunications industries are composed of planning, formation, operation, and termination.

How partners formulate the IEPSA is depicted in the step of each of the phases. Establishing the planning phase in general consists of four steps (see section 10.2.1): an announcement, a first bidding stage (preliminary bid and due diligence), a second bidding stage and concluding with a sales and purchase agreement. In each of the steps the following factors need to be considered. They are; number of prospective partners, documented commitment, industry regulatory involvement, level of opposition, and acceptability of price.

The formation phase in general comprises four steps (see section 10.2.2): setting up new vision and mission, formulation of strategies, implementation plan, and acceptance from the commissioners. The factors to be considered in each of the steps are ownership percentage, market opportunities, time constraint, and informal formulation of strategies.

The operation phase in general is composed of three steps (see section 10.2.3): enhancement of human resources, organizational arrangement, and setting up control system. The factors to be considered in each of the steps are previous separated subsidiary, already flat organization, regulation, and corporate governance.

Eventually, the termination phase in general consists of two steps (see section 10.2.4): existence of termination driver and termination. In the termination phase of the IEPSA, the steps to be considered are existence of termination driver with threat of monopoly and unfulfilled objective as factors to be well thought of.

11.1.2 Factors and variables

This section provides answer to Research Question 2: Which factors and variables influenced these steps and phases?

In planning phase, the factors consist of stakeholder support and strategic match. The stakeholder support comprises of society and internal organization.

The stakeholder support factor consists of variables (see figure 10.9), which are; transparency of the privatization, share price, degree of internal relationship, fulfillment of budget deficit, company restructuring, unprecedented moment, limited shares in the bourse, existence of the floor price, and plan for privatization. Jahansoozi (2006) mentioned that when there is a lack of trust or a state of distrust exists in the organization-stakeholder relationship, transparency is a required condition for rebuilding trust and commitment in the relationship. The concept of transparency is linked to openness and is described as being both a relational characteristics as well as an environmental

condition for organizational processes. In addition to Jahansoozi (2006), this research revealed that the transparency is influenced by the internal organization support and the share price which is derived from company restructuring, opposition from a number of managers and employees, reducing of budget deficit, unprecedented moment, share price in the bourse, limited shares in the bourse, existence of floor price, and plan for privatization. Change in ownership structure variable is not included within the model of stakeholder support since there is no consistency of findings between the variable with the factor. In other words, stakeholder support factor is not influenced by the change of ownership.

Strategic match consists of capacity, complementarity, and strategic importance (see figure 10.10). The factor comprises attractiveness of macroeconomic conditions, product or service as well as technology and financial performance, attractiveness of market, and alliance track record, complementarity related to the attractiveness of macroeconomic conditions, market and resources, complementarity related to the attractiveness of market, complementarity related to the strategy, complementarity related to the attractiveness of resources, pressure on continuity, pressure of time on alliance, and alternative to cooperation. The attractiveness of macroeconomic conditions and financial performance are included in the capacity sub-factor since the IEPSA intentions were carried on despite unfavourable macroeconomic conditions which hampered the financial performance of the SOEs and BTOs. In other words, the strategic match is negatively influenced by the attractiveness of macroeconomic conditions and financial performance. In the strategic importance sub-factor, alternative to cooperation is also included in the model since the more alternative to cooperation in the IEPSA will influence negatively to the strategic importance of the alliance. The model of strategic match differs with Niederkofler (1991), Lorange and Roos (1992), Faulkner (1995), Sierra (1995), Segil (1996), Medcof (1997), and Douma (1997) as from the unveiled situation that there is existence of causal relationship between cultural understanding and strategic match through the pressure on continuity as well as influence of strategic match on the stakeholder support. Besides that, motivation of adaptation to local needs and standardization of system can influence the complementarity sub factors in the strategic match.

From the cultural understanding model (see figure 10.11), trust in the planning phase of an IEPSA is obtained through sharing communication which is invigorated by the stakeholder support and assurance of bidding offer. The sharing of communication can consist of both goodwill and competence. They are endorsed by the stakeholder who has prior knowledge about the partners and the intended IEPSA due to the positive influence of strategic match to the stakeholder support. Related to competence, an existence of assurance of bidding offer influences positively to the share of communication since it consists of assurance about the transfer of competence, and capabilities

between partners in the IEPsA. The model obtained in this research refines Das and Teng (2001) who stated that trust is composed of goodwill trust and competence trust. Goodwill trust is about one's good faith, good intentions, and integrity. It is about whether a firm has a reputation for dealing fairly and caring about its partner firm's welfare in alliances (Das & Teng, 2001:256). Competence trust is based on the various resources and capabilities of a firm (Das & Teng, 2001: 257).

In formation phase, the factors are internal organization support and strategic planning. Internal organization support includes labor union and management support sub-factors (see figure 10.12). The factor consists of participation in the implementation of strategic planning, guarantee on employment, fit in objective, and differences between the current culture and old culture. In the model of internal organization support, strategic plan influences internal organization by having plans which convince the entire organization to participate in the implementation and provide guarantee of employment. This confirms Lorange and Roos (1993) who mentioned that the entire organization should be sufficiently explained and clearly motivated to ensure that everyone sees the tasks ahead and can focus on them as an opportunity. Besides that, in this research it was revealed that a formulated strategic plan influences positively to the cultural understanding which in turns endorse the participation in the implementation of strategic plan. Other factor that enhances participation is the existence of fit in objective while difference between the current culture with the old clan culture hinders participation.

In the strategic plan factor (see figure 10.13), it consists of commitment and existence of informal meeting on strategy formulation. In the model of strategic plan, commitment is required by the partners to complement and exploit the resources to obtain capabilities as sources of the alliance's competitive advantage. Lorange and Roos (1992) mentioned that creating a competitive advantage is desired in the strategic plan. In addition to Lorange and Roos (1992), this research unveiled that the state of strategic plan which comprises commitment of partners in terms of resources has reciprocal relationship with the internal organization support.

In operation phase, the factors are human resource management, organizational arrangement, management control system. The factors consist of collaborative people, opportunistic behavior, decentralization of decision making, new value enhancement, planning, control structure, control process, trust, commitment, share of communication, nurture the alliance, and unclear SPA. Lorange and Roos (1992) mentioned that people in the strategic alliances represent core competencies which need to be identified and cultivated. Strategic alliances arise through various

types of interactions between the partners. These interaction processes are of two principal types: exchange and adaptation. In the model of human resource management of this research (see section 10.3.3 about human resource management), it was revealed that collaborative people are required in the IEPSA to tackle these processes of exchange and adaptation. Nevertheless, opportunistic behavior can hinder the establishment of collaborative people in the IEPSA. Besides that, it was unveiled that human resource management influences positively to the management control system in the alliance and has causal effect with the evolved cultural understanding.

To adapt to the dynamic environment as an organizational requirement of a strategic alliances as mentioned by Bleeke and Ernst (1991) and Callahan and Mac Kenzie (1999) (see section 10.3.3 about organizational arrangement), through a cross-case analysis it was suggested that an IEPSA needs to decentralize its decision making. This can be enhanced when partners in an IEPSA need to endorse new value to the alliance. The flattened organization variable is not included within the model of organizational arrangement provided that the choice of the layers in the organization is determined by the formulated and implemented strategy of the IEPSA.

In the model of management control system of this research (see section 10.3.3 about management control system), behavior control is located within the human resource management where collaborative people are required by the partners in the IEPSA. In the alliance, collaborative people who concern for others and self are the ones control the required behavior in the IEPSA. Planning, control structure, and control process have the role to establish an output control in the alliance (see figure 10.16). Social control is embedded in the evolved cultural understanding which is composed of trust and commitment (see section 10.3.3 about evolved cultural understanding). This factor (evolved cultural understanding) is established to accommodate the establishment of common culture and values. This refines Das and Teng (2001) who mentioned that control in the strategic alliances consists of behavior control, output control, and social control. Behavior control is also called process control, since it focused on the process which turns appropriate behavior into desirable output (Das & Teng, 2001: 260). Output control is about result orientation and whether or not the alliance achieves the objectives (Das & Teng, 2001). Social control aims at reducing the discrepancies in goal preferences of organizational members through the establishment of common culture and values (Das & Teng, 2001).

The model of evolved cultural understanding (see figure 10.17) is consistent with Parkhe (1998) who stated that trust can deliberately be “produced”. Trust, in accordance with the model as obtained in this research is acquired by the establishment of management control system consisting of planning, control structure and control process. The performance of the alliance variable is not included in the model since it is part of the management control system. In other words, the

financial performance is controlled within the planning, control structure, and control process variables of the management control system. The model is consistent with Arino, de la Torre, and Ring (2001) who stated that as the quality of the relational improves the potential for positive conflict resolution increases, which in turn enhances the partners' views of each other trustworthiness. As the objective of the partners can be fulfilled in the IEPSA through the effective management control system, this situation enhances the evolved cultural understanding in the alliance which is composed of trust and commitment. This situation can alleviate the cultural understanding inherited from the previous phases (planning and formation phases).

Finally, in termination phase the factors are internal driver and external driver which consist of strategic objectives, expectancy, corporate leadership, and failure to meet synergy, as well as external environment variable (see section 10.3.4). This confirms Kanter (1994), Sierra (1995), Porter (1998), and Mockler (1999). In particular with IEPSA, failure to meeting synergy is the factor that influences the internal driver of strategic alliance termination.

11.1.3 Relationship of factors

Along the life cycle of an IEPSA, relationships of the factors can be obtained (see figure 10.19). In the planning and formation phase, strategic match influences positively to the stakeholder and has reciprocal influences with cultural understanding while stakeholder support has reciprocal influences with cultural understanding. These relationships suggest that stakeholder support is initially established through the information related to the prospective partners before or during the due diligence to determine the strategic match between the prospective partners. Cultural understanding which is composed of trust and commitment is established and enhances strategic match and stakeholder support as well as the internal organization support in the formation phase. In other words, strategic match, cultural understanding, stakeholder support, and internal organization support can be enhanced with reciprocal relationships one to another. Internal organization support has reciprocal relationships with strategic planning. Besides that, cultural understanding influences the evolved cultural understanding in the operation phase. But, evolved cultural understanding can change due to its reciprocal relationships with human resource management and management control system. The latter is influenced by both human resource management and organizational arrangement.

In all cases, management control systems were relatively easier to implement provided that planning, control structure, and control process are positives due to the increasing trust level so that structure and process mechanism were exercised in the culture of trust. In addition to Das and Teng

(1998), in banking industry, compliance to Good Corporate Governance and risk management had improved the effectiveness of management control systems implementation. Besides that, the trust level had improved due to the increasing level of these factors; organizational arrangement (through its influence to management control system), and human resource management. These were identified as control mechanism in terms of structural according to Das and Teng (1998) about trust and control in strategic alliance. As such, the situation improved the performance of the alliance and subsequently the commitment of the partners in the alliance improved both attitudinal and calculative commitment in accordance with Cullen et al. (2000). In the attitudinal commitment (Cullen et al., 2000: 226), the alliance assumes a position of status and importance; the partners are willing to nurture and care for it. There is a fairly deep psychological identification with the relationship and a pride of association with the partner and with the alliances. For a relationship to continue there must be a positive benefit/cost analysis for the partners. Managers must see a potential for returns and/or a need to avoid switching costs. This is the rational and economic side of commitment. It is called calculative commitment (Cullen et al., 2000: 225-226).

Effects of attractiveness of market, alliance track record, product or service, and technology

Resource complementarity between partners will be positively associated with strategic performance (Sarkar, Echambadi, Cavusgil, & Aulakh, 2001). The attractiveness of market, alliance track record, product or service, and technology are the capacities that become determinants to the performance of the IEPsA. According to Song, Droge, Hanvanich, and Calantone (2004), marketing-related and technology related capabilities in a joint venture have positive performance impact. Hence, the determinants to the performance of the IEPsA are consistent with those of a joint venture since market share relates with the capability of the partner to exploit the market opportunities in the business environment. In addition to it, alliance track record which is referred to the partners' reputation and the capacity to high quality product or service should also be included since they bring confidence to the IEPsA in sharing their capacities. This can be implemented through the transfer of key people, knowledge, experience, and expertise from the partners to the strategic alliance.

Therefore for managers, the implication is clear: scrutinize the capacity of partners in terms of marketing which reflects in the ability to gain prominent market share in the business environment, reputation related to experiences and successfulness on strategic alliances, ability to produce high quality of distinctive product or service supported by the leading-edge technology.

Interaction of capacity

Glaister and Buckley (1996) found that access to complementary resources rather than the sharing of risks and development of economies of scale were the primary reasons firms form alliances. From the empirical data, bundling and complementarity of partners' market and technology capacities enhanced by partners' confidence through proven alliance track record and product or service has the potential to boost the performance of the IEPSA. In one instance, a banking IEPSA with marketing capacity, superior product and service as well as advanced technology on the local partner side and reputation on strategic alliances and bundled with Good Corporate Governance capacity on the foreign partner side had provided a competitive advantage to the bank. This bundling, complementarity, and interaction of capacity in the IEPSA can be related to four potential sources of inter-organizational competitive advantage (Dyer & Singh, 1998) which includes (1) relation-specific assets, (2) knowledge-sharing routines, (3) complementary resources/capabilities, and (4) effective governance.

Das and Teng (1998) suggested that partners bring at least four categories of potential resources—financial, technological, physical, and managerial—to an alliance. Complementary to Das and Teng (1998), for managers, scrutinizing the sharing and bundling of partners' capacity in the IEPSA upon the capacity of marketing, reputation, and innovativeness leading to high quality of product or service is crucial to ascertain the IEPSA develop a new core competence and gain a competitive advantage. In a later stage of the IEPSA (after the formation), managers should provide control mechanisms which includes setting up Key Performance Indicators (KPI), formulate the implementation plan, and evaluate the achievement of KPI. This is also necessary to eliminate weaknesses in the company prior to the IEPSA upon lack of capacity in marketing, innovativeness, and alleviate notorious reputation which may exist. Firms seek to establish a resource bundle through alliances that is valuable, rare, and difficult to imitate (Gulati, Nohria & Zaheer, 2000) can be fulfilled. Thus, experimental learning, which generates unique, new knowledge is the target alliance formation and use (Lei et al., 1996; Zahra, Nielsen & Bogner, 1999). Partly, through learning, alliances help firms overcome limitation in their own resource set and seek other competitive advantage that can exploit the changes in the business environment (Hagedoorn, 1995; Hite & Hesterly, 2001; Mitchell & Singh, 1996). This is aimed in order to remain competitive (Lei et al., 1996; Teece, Pisano & Shuen, 1997).

Figure 11.1: Bundling of capacity and its influence on performance of an IEPSA

Strategic importance

Trust is a willingness to accept vulnerability based upon positive expectations of partner behavior (Hutt et al., 2000). When trust exists, the company does not fear its partner's actions (Deutsch, 1973, McAlister, 1995), because the partners can depend on each other to achieve a common objective (Gerhard & Odenthal, 2001). Trust is developed during the tendering process and due diligence as well as established from the reputation of partners which solidifies the commitment and influences positively to the strategic match in the IEPSA through its influence on the pressure on continuity upon the alliance. There is a relationship between the initial trust between partners with the pressure on continuity upon the IEPSA. This initial trust is developed through the reputation of the partners in forming and managing strategic alliances and relationship established during the partners' interaction in particular during the tendering process and due diligence. This brings commitment and furthermore leads to a cultural understanding between partners in the IEPSA in such a way that any differences derived from the different cultures of partners will not influence to the intention to establishing an IEPSA. In other words, high level of trust and commitment will bring pressure on the alliance continuity as partners feel comfort with the alliance and imminent competitive advantage obtained. Pressure of time on alliance can be enhanced by the complementarity of market between partners. For instance, one partner possessing a growing industry market and the other with maturity market will incline to establishing an IEPSA by taking advantage of this synergy thus enabling to exploit opportunities in the business environment.

The implication for manager is clear: that relationship and interaction between partners during the tendering process and due diligence is crucial to create trust and commitment which further inhibits problem related to the different cultural backgrounds such as corporate culture and national culture.

Interaction between trust, strategic match, and stakeholder support

Trust is a vital aspect of social capital (Cullen, Johnson, & Sakano, 2000; Dess & Shaw, 2001). Firms with strong social capital are likely to choose partners with whom they have a bond of trust prior to the alliance (Ireland et al., 2002). Tacit knowledge (such as trust and social capital) is a strong stimulus of achieving competitive advantage by integrating complementary resources (Harrison et al., 2001). Besides that, strategic match between partners will increment trust between partners. In other words, there is a reciprocal influence between trust and strategic match. Existence of trust and commitment will create cultural understanding in such a way that it will function as a buffer to any discrepancies of cultures between partners whether in the scope of corporate or national.

Good strategic match between partners will potentially create imminent benefits to the stakeholder such as employment, dividend, society development etc. Thus, it influences to the IEPSA's acceptance from the stakeholder.

Figure 11.2: Cultural understanding, strategic match, and stakeholder support

Cultural compatibility of the partners will be positively associated with strategic performance (Sarkar et al., 2001). In this article, cultural compatible is related with cultural understanding in the IEPSA composed of trust and commitment. The cultural understanding influences positively to the strategic match, which afterwards enhances the performance through established core competencies and competitive advantage.

11.2 Reflections

11.2.1 Reflection of research expectations

IEPSA as one type of privatization in Indonesia was a sensitive issue where the political sense was prominent which brought about lack of respondents willingness to be interviewed. In most cases,

the privatization policy maker preferred not to engage with interview that connected with privatization. Stakeholder influences were prominent since the IEPSAs comprised a huge injection fund to restructure the companies prior to the IEPSA composing of more than 25% of Indonesia's GDP.

To gain access to the respondents in the cases studied, a strategy was made through acquiring references from key person having prominent influence in the organization. The strategy seemed to work well since the number of respondents was much higher than by directly asking the key person to be interviewed. One possible reason is not only due to security matters, but also since Indonesian have a high power distance (Hofstede, 1991) where subordinates are dependent upon superiors they are more likely to accept equal status, and to follow the leader.

Nonetheless, in several cases during the meeting it was indicated that the messages from respondents were not correctly conveyed. It seemed that some of the information was concealed. As such, in particular data about transparency, share price, trust and commitment, stakeholder support were not always easily obtained. Moreover, in a case of interviewing the commissioner but during different period of time had resulted with different conclusion. In this research, cross check upon the data obtained from the interview with other sources of data such as with another primary data, secondary data and observation were exercised to determine the convergence of the findings. Another primary data type, such as observation was useful to triangulate the data, for example in Semen Gresik wherein after almost eight years of alliance, labor union defiantly put on a giant banner to aspire for local dominant in the alliance with Indonesian flag ahead in the headquarter office protesting the intention of Cemex to push government to exercise its put option. In the same case, one of the conspicuous observations was the behavior of head of labor union that seemed nervous and rejected to be directly interviewed; rather he submitted his view upon IEPSA on pieces of documents. The same situation occurred when interviewing the general manager of Indosat, a former head of labor union. He preferred to present his book upon the chronology of the IEPSA along with its controversies rather than providing detailed answers to the question raised.

The research objectives have been fulfilled as expected ingaining insight into the privatization processes through IEPSAs in Indonesia. Insight had been described in the preceding chapters and in particular presented in the case chapters. Fundamentally, the research questions have been fulfilled leading to the answer to central research questions: How did the privatization process through International Equity Placement Strategic Alliance take place in Indonesia? Answers of the central research questions had been presented in chapter 10.

11.2.2 Reflection of the research model

The conceptual framework or model which has been constructed in this research represents a process within the alliance life cycle from the planning, formation, operation to the termination phase covering the accompanying factors and variables. Design of the process model was made to answer the research questions and intended to fill the gap in the research on strategic alliances which has been more focused on joint venture and collaboration.

The model developed is dynamic, meaning that the circumstances of trust and commitment of the partners can alter over time. In other words, partners in the IEPSA with many hindrances in the beginning phases (planning and formation) were able to alleviate its partnership and stakeholder relationship when using the model. In this instance, four (Semen Gresik, Indosat, BII, BCA) out of six cases studied in the research experienced pitfalls in the beginning phases, but the three alliances were able to ameliorate the relationship in the latter phase. Partners in one (Semen Gresik) of the alliances were not able to improve the relationship due to the ownership structural problem that was not able to be resolved.

The model offers a dynamic process where there were availability of factors and variables to maintain or improve the condition. However, it should be reckoned it is important to stick to the model from the earliest phase of the IEPSA so that the alliance can be considered successful from the beginning phases. Lessons learned from Indonesian experiences were that most of the IEPSAs ruined the reputation of the IEPSAs as one of the privatization alternatives. The processes were considered as not-transparent indicated by selling prices of much lower than the fair or fundamental value, i.e. the selling price of Indosat was Rp 12,950 per share while the fair value was Rp 43,105. Nevertheless, IEPSAs in Indonesia had proven to be successful in the implementation in terms of improved financial performances.

Another lesson learned was that, within the three types of industries experiencing the IEPSAs; cement, telecommunications, and banking, it was necessary for the government to establish the related regulation before or after the IEPSAs. There were regulations that had been developed and released by the government such as the regulation of Antimonopoly (Law No. 5/1999), Telecommunications (Law No. 36/1999), State-Owned Enterprises (Law No. 19/2003), and Indonesian Banking Architecture. These regulations helped enhance the speed of recovery in those industries. In contrast, when there were absences of regulations it would be difficult to lead an IEPSA into high performer. As such, regulations barrier can be an additional hurdle to what have been researched by Austin, et al. (1986).

One of the most sensitive issues arose in the initiation of an IEPSA was the share price. The lessons of IEPSAs in Indonesia taught that the share price should be at least the same with the fair or

fundamental value otherwise the transparency issue occurred. For instance, in the cases of Semen Gresik, Indosat, and BCA the price benchmarking in the capital market was undervalued compared with the fair value. Nonetheless, the government should exercise the fair value in the SPA not only for securing IEPSA's degree of success but also inducing the capital market by enticing more investors to enter the stock exchange. Related with hurdles of privatization as indicated by Austin et al. (1986), issue about the share price is rooted from the economic barrier since economic recession affects the low share price of the company intended to conduct an IEPSA.

The cultural and management differences were not the sources of the obstacles in the IEPSA. Two cases of the IEPSAs in Semen Gresik and BCA were examples of the differences in terms of cultural characteristics between Indonesian and Mexican as well Indonesian and United States. From the cases, evidences suggest that issues in the alliances were not due to the cultural differences. Rather, the issues of transparency, share price, and rationalization were more notable. As such, the alliances between Indonesian and United States partners turned out to be very successful after seven years of alliance. This confirms Arino et al. (2001) about the evolutionary of trust in alliance's life cycle that as the quality of the relational improves the chance for positive conflict resolution increases, which in turn enhances the partner's views of each other's trustworthiness.

Government's plan to privatize SOEs and BTOs could influence negatively to the degree of internal relationship provided that a number of managers and employees opposed the intended alliance. Motivation of budget deficit reduction in the privatization was supported from the fact that government urged to establish the IEPSA when the end of year was approaching, i.e. the case of Indosat (in December 2002). Altogether, both the occurrence of unprecedented moment such as Bali Bombing (in October 2002) and the affected share price in the bourse influenced negatively to the share price of the SOEs and BTOs being privatized.

Besides that, high share price in the bourse, and the set up floor price such as in the case of Bank Permata established in accordance with the fair value influenced positively to the share price of the SOEs and BTOs. All in all, both low degree of internal relationship and low share price influenced negatively to the transparency of the privatization process which afterwards influenced to deter the stakeholder support on the IEPSA.

Absence of guarantee on employment created negative impact to the alliance from the opposition of stakeholder, i.e. the case of Semen Gresik when Cemex Mexico did not guarantee on preventing laying-off. Despite occurrence of fit in objective between partners, the issue of rationalization influenced negatively to the participation of management and employees in the implementation of strategic plan. Subsequently, the situation affected negatively to the existence of internal support.

Adaptation to local needs and requirement was also necessary to acquire the complementarity related to the attractiveness of Indonesian market. These were in an effort of the foreign partner to enhance the strategic match between the partners.

Absence on the assurance of bidding offer as the case in Semen Gresik when the bidding offer restructure from 35% to 14% despite the winning bidder has been determined, influenced negatively to the share of communication between partners and nurture the alliance. Since, this situation disappointed and demotivated the partner to share communication and nurture the alliance. These, subsequently, influenced negatively to the trust and commitment in the IEPSA.

Despite fit in objective declared by the partners in the initiation phase, non-existence of guarantee on employment created anxiety to the internal stakeholder. It influenced negatively to the lack participation in the implementation of strategic plan which was the case of Semen Gresik shown by the strikes and on the street protests in Gresik and Jakarta after the SPA.

Existence of informal meeting on strategy formulation between the partners prior to the SPA (in the case of Bank Niaga) influenced positively to the commitment which in turn affect to the successful strategic plan. This occurred since actually the strategic plan was established during the period while commitment acquired to enhance the successful strategic plan.

Control structure established by new owners should be in compliance with the government regulation such as banking industries should comply with Bank of Indonesia regulation. It was set up in a purpose to anticipate and avoid the occurrence of past mistakes in particular during the economic crisis, the banking collapsed due to the non-existence of Good Corporate Governance which was due to one of the means lack of proper control structure. All in all, planning, control structure, and control process which were in accordance with the Good Corporate Governance influenced positively to the successful management control system of the IEPSA.

Unclear SPA as occurred in Semen Gresik, influenced negatively to the nurture of the alliance. This, in turn, influenced negatively to the lack of trust and commitment in the IEPSA.

The termination was derived by the IEPSA's failure to meet synergy such as transferring know-how, technology, and fund. It was indicated by the reduced market share related with inability to achieve strategic objectives and expectancy in the IEPSA. This situation influenced to the internal driver of the IEPSA termination.

11.3 Recommendations

The recommendations are differentiated into recommendations for the Indonesian government, for the firms, and for the proposed future research.

11.3.1 Recommendations for the government

The following section is the recommendations for the government related with the initiation and implementation of an IEPSA. It includes transparency, regulation, restructurization, consistency, donor pressure, and compliance to the model.

1. Transparency

In particular with the life-cycle the IEPSA, the government should promote transparency. In the planning phase, the government should announce to the public upon the IEPSA through mass media announcement invitation letters so that a vast amount of prospective bidders participate in the tendering scheme. Government should socialize tendering procedure, process result, and set up clear rule including criteria of determining the winning bidder.

The established evaluation team and the assigned tasks should be announced public including revealing the identity of financial advisors and underwriters, and announcement of offering price of each bidder. The tendering committee should announce to public of assessing the bidder. Besides price, business plan, clausal of SPA, and fit and proper test, the committee should have check-list on strategic match between the prospective partners. To intensify a sense of transparency, the committee should be escorted by independent committee to assess the bidders. The winning bidder is the result of assessment which was bolstered by tendering process and supervised by independent committee.

In the Sales and Purchase Agreement (SPA), the entity of the winning bidder should be announced to the public to ascertain that the entity is the one participating in the tendering without any other new entities signing the SPA or the existence of Special Purpose Vehicle. Ultimately, government should announce to public upon incoming fund from the formation and termination of an IEPSA including detail the expenses used along with net incoming fund to the government.

2. Regulation

The government should establish the related regulations and the infrastructures before or after the IEPSAs. The regulations that promote incentives to industry competition, anti-monopoly, and Good Corporate Governance are examples to be established or refined. Besides that, commissions for the supervisions of business competition, and anti-monopoly as well as Good Corporate Governance should also be established to make certain upon the implementation of the regulations.

3. Restructurization

The government should implement the restructuring of the SOEs and BTOs. This should include restructuring of resources (financial, organization, technology, and physical location as well as human resource) and activities (operations, logistics, marketing and sales, infrastructure, human resource management, technology management, and purchasing) in such a way to improve performance prior to the intention to form an IEPSA. In the case of banking IEPSA, infrastructure to support the restructuring program should be established, i.e. related to Asset Management Credit, Asset Management Investment, Risk Management, and Support and Administration. It should be supervised by Ministry of Finance, Financial Sector Policy Committee and the Oversight Committee. The members include the economic ministers, and the Independent Review Committee, which includes representatives from the donor organization.

4. Consistency

The government should be consistent with fulfilling the implementation of the terms and conditions stipulated in the tender and in the SPA, i.e. the proportion of offered ownership, the timing of exercising put option when the government pledged to dilute its ownership within a designated years.

5. Donor pressure

In the situation when the donor organization exists such as World Bank or IMF, government should urge the donor organization to cooperate instead of imposing on the programs. The government should discuss with donor organization for instance about selecting which SOEs to be privatized and its timing of initiation. The government should strictly turn down the donor organization's interference during the formation and implementation of an IEPSA, i.e. in the determination of the fair value of the share price and the winning bidder.

6. Compliance to the model

The government may use the steps and model of an IEPSA as in figure 3.2 and its relationship in figure 10.18 with the models of factors as discussed and presented in chapter 10. This will help confirm a successful formation and implementation of an IEPSA.

11.3.2 Recommendations for the firms

There are recommendations for practitioners who intend to perform an IEPSA as the preferred type of strategic alliance. The recommendations are related with the economic condition, share price, transparency, ownership structure, and restructurization program.

1. Economic condition

Although the IEPSAs were mostly commenced during the dismal economic situation, practitioners should avoid establishing IEPSA during the abyss of economic crisis to forestall issues of stakeholder opposition. In addition to that, the practitioners should also notice to avoid establishing IEPSA during the striking events that hamper the performance of capital market.

2. Share price

In terms of share price, the domestic partner should establish a valuation team. The valuation should reckon the fair value which take into account and reflect the synergy resulted from both partners' complementarity of capacity.

3. Ownership structure

Ownership structure is the recommendation that should be considered meticulously. To secure a successful IEPSA, foreign partners should have ownership structure of more than the government's share, i.e. 51-49, 55-45, and 60-40.

4. Restructurization

Partners should be aware of the prior restructurization program. The restructurization program on the side of domestic partner should be undertaken prior to the establishment of the IEPSA through which the program has already resolved issue of rationalization and clan culture in the organization.

5. Trust and commitment

Partners should maintain and enhance its trust and commitment from the planning phase to the operation phase since trust and commitment may evolve over time.

6. Compliance to the model

Likewise, partners may use the steps and model of an IEPSA as in figure 3.2 along with its relationship in figure 10.18 with the models of factors as discussed and presented in chapter 10.

This will help partners alleviate the difficulties and lead to a successful formation and implementation of an IEPSA.

11.3.3 Recommendations for further research

Firstly, as all alliances in this research had formed IEPSA and conducted Public Offering, the future research will be determining the optimum composition of ownership structure between IEPSA and Public offering in order to have optimum performances. The performances can be in relationship with efficiency and effectiveness. Other consideration can be in relationship with the stakeholder support. The cases can be differentiated into SOEs and BTOs.

Secondly, the follow-up quantitative research on the IEPSA would be an interesting research topic to validate the factors and variables based on conceptual framework developed within the phase one of the means to obtain the relationships of the factors and variables as well as to find other insight from different angle of methodology on the alliance.

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Appendices

Appendix A: Valuation of Indosat

(in billion of Rp)

Valuation		2002	2003	2004	2005	2006	2007
Assumed sales growth rate			20%	17.5%	15.0%	12.5%	10.0%
Net sales		6,766,982	8,120,378	9,541,445	10,972,661	12,344,244	13,578,668
COGS (% of sales)		60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Cost of goods sold		(4,060,189)	(4,872,227)	(5,724,867)	(6,583,597)	(7,406,546)	(8,147,201)
Gross profit		2,706,793	3,248,151	3,816,578	4,389,065	4,937,698	5,431,467
Depreciation & amortization		1,723,933	2,068,720	2,430,746	2,795,357	3,144,777	3,459,255
Less selling G & A	11%	(744,368)	(893,242)	(1,049,559)	(1,206,993)	(1,357,867)	(1,493,654)
Operating profit		1,962,425	2,354,910	2,767,019	3,182,072	3,579,831	3,937,814
Other expenses	9%	(609,028)	(730,834)	(858,730)	(987,540)	(1,110,982)	(1,222,080)
Earning Before Tax		1,353,396	1,624,076	1,908,289	2,194,532	2,468,849	2,715,734
Note: Estimated WC	46%	3,080,708	3,696,849	4,343,798	4,995,367	5,619,788	6,181,767
For FCF Valuation:							
Earning Before Tax		1,353,396	1,624,076	1,908,289	2,194,532	2,468,849	2,715,734
Less taxes	30%	(406,019)	(487,223)	(572,487)	(658,360)	(740,655)	(814,720)
Net earning after-tax		947,377	1,136,853	1,335,802	1,536,173	1,728,194	1,901,014
Add depreciation & amortization		1,723,933	2,068,720	2,430,746	2,795,357	3,144,777	3,459,255
Less change in NWC		(586,801)	(616,142)	(646,949)	(651,570)	(624,421)	(561,979)
Less capex	3.46%	(233,989)	(280,786)	(329,924)	(379,413)	(426,839)	(469,523)
Free Cash Flow (FCF)		1,850,520	2,308,645	2,789,675	3,300,548	3,821,711	4,328,766
Terminal value							68,454,746
FCF including TV		1,850,520	2,308,645	2,789,675	3,300,548	3,821,711	72,783,512
WACC		16.07%	14.86%	13.64%	12.43%	11.21%	10%
Present value factor		1	0.87	0.77	0.70	0.65	0.62
Present value of cash flow		1,850,520	2,010,030	2,160,103	2,322,529	2,498,153	45,192,835
Cumulative present value		56,034,170					
Enterprise value		56,034,170					
Less net debt		(11,261,621)					
Less minority debt		(137,442)					
Equity value, total		44,635,107					
Equity value of government	65%	29,012,819.24					
Shares outstanding (millions)		1,035,499,999					
Shares belong to government		673,074,999					
Fair value of equity per share, Rp		43,105					
Exchange rate (Rp/US\$)		9,315					
In US Dollar		4.63					
Number of shares sold to STT		434,250,000					
Actual price per share sold to STT (Rp)		12,950					
Amount of IDR received to government		5,623,537,500,000					
Fair amount of IDR received to gov't		18,718,295,533,364					
Difference in value (IDR)		(13,094,758,033,364)					

ROE		
2002	2003	2004
3.27%	50.52%	12.39%
Average ROE	20%	

<http://www.advn.com/p.php?pid=financials&symbol=IIT>

Appendix B: Valuation of Semen Gresik

(in Billion of Rp)

Valuation	1997	1998	1999	2000	2001	2002	2003
Assumed sales growth rate		16.0%	26.9%	20.0%	20.0%	20.0%	20.0%
Net sales	1,588	1842.1	2337.6	2805.1	3366.1	4039.4	4847.2
COGS (% of sales)		46.0%	47.0%	47.0%	47.0%	47.0%	47.0%
Cost of goods sold		(847.4)	(1,098.7)	(1,318.4)	(1,582.1)	(1,898.5)	(2,278.2)
Gross profit		994.7	1,238.9	1,486.7	1,784.1	2,140.9	2,569.0
Less selling G & A	15%	(276.31)	(350.64)	(420.77)	(504.92)	(605.91)	(727.09)
Operating profit (EBITDA)		718.4	888.3	1,065.9	1,279.1	1,535.0	1,842.0
Less depreciation & amortization		(261.0)	(331.2)	(397.5)	(476.9)	(572.3)	(686.8)
EBIT		457.4	557.1	668.5	802.2	962.6	1,155.2
Note: Estimated WC	14% 222.3	257.9	327.3	392.7	471.3	565.5	678.6
For DCF Valuation:							
EBIT		457.4	557.1	668.5	802.2	962.6	1,155.2
Less taxes	30%	(137.22)	(167.12)	(200.55)	(240.66)	(288.79)	(346.55)
Net operating profit after-tax		320.2	390.0	467.9	561.5	673.8	808.6
Add depreciation & amortization		261.0	331.2	397.5	476.9	572.3	686.8
Less change in NWC		(35.6)	(69.4)	(65.5)	(78.5)	(94.3)	(113.1)
Less capex		(40.0)	(50.8)	(60.9)	(73.1)	(87.7)	(105.3)
Free Cash Flow (FCF)		505.6	601.0	739.0	886.8	1,064.2	1,277.0
Terminal value							19,155.7
FCF including TV		505.6	601.0	739.0	886.8	1,064.2	20,432.8
WACC		32.70%	28.5600%	24.4200%	20.2800%	16.1400%	12.00%
Present value factor		1	0.777847	0.645981	0.574672	0.5496329	0.56742686
Present value of cash flow		505.62	467.51	477.40	509.64	584.92	11,594.10
Cumulative present value		14,139.19					
Enterprise value		14,139.19					
Less net debt		(4,113.50)					
Less minority debt		(23.1)					
Equity value, total		10,002.59					
Shares outstanding (millions)		593.2					
Fair value of equity per share, Rp		16,862.09					
Exchange rate (Rp/US\$)		14500					
in US dollars		\$ 1.16					
		Semen Gresik share price, Rp:					
		6500					
		Exchange rate (Rp/US\$)					
		14500					
		In US dollars					
		\$0.45					

Appendix C: Valuation of Bank Niaga

TOTAL INVESTED CAPITAL CALCULATION				(In million of Rp)
Liabilities & Equity	2002	2003	2004	
Liabilities				
Marketable Securities Issued				
Related Parties	-	-	464,250	
Third Parties	90,000	-	200,000	
Borrowings	1,440,447	737,342	995,732	
TOTAL LIABILITIES	1,530,447	737,342	1,659,982	
Minority Interest	6,736	8,239	6,754	
Equity				
Share Capital	746,907	746,907	748,594	
Additional Paid up Capital	9,270,323	538,709	547,954	
Fixed Assets Revaluation Reserve	147,222	255,116	255,116	
Difference in Transaction of Equity Changes in Subsidiary	844	1,163	1,163	
Unrealized (Losses)/Gains on Available for Sale Securities	(51,897)	19,320	(48,973)	
Cumulative Translation Adjustments	290,941	143,355	-	
General and Legal Reserve	37,138	37,138	83,842	
Retained Earnings / (Accumulated Losses) after Eliminating				
Deficit of Rp 8731614 on 31-7-2003 Through Quasi-Reorg	(8,965,351)	233,518	775,305	
TOTAL EQUITY	1,476,127	1,975,226	2,363,001	
TOTAL INVESTED CAPITAL	3,013,310	2,720,807	4,029,737	

EVA CALCULATION			
Item	2002	2003	2004
NOPAT			
Operating profit	38,905	336,641	633,359
Interest income			
- income tax			95,237
- tax shield on interest	-	-	-
NOPAT	38,905	336,641	538,122
Item	2002	2003	2004
Capital charges			
Inv.capital beg of year		3,013,310	2,720,807
Inv.capital end of year		2,720,807	4,029,737
Inv.capital (average)	3,013,310	2,867,059	3,375,272
Capital charges	508,535	484,897	552,148
EVA	(469,630)	(148,256)	(14,026)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Invested Capital	3,013,310	3,163,976	3,322,174	3,488,283	3,662,697	3,845,632	4,038,124	4,240,030	4,452,031	4,674,633	4,908,364
Total Borrowing	1,530,447										
EVA	(469,630)	(394,489)	(310,660)	(217,462)	(114,168)	0	125,870	264,327	416,315	582,841	764,978
Terminal Value EVA											6,425,817
PV EVA	(469,630)	(338,070)	(228,522)	(137,529)	(62,177)	-	51,081	92,823	126,714	154,009	175,771
											1,476,479
Accumulated of PV EVA	840,949										

Market Equity value(Fair Value)	2,323,812
51% of Market Equity of the Firm	1,185,144
Price to Book Value	1.57

Appendix D: Valuation of Bank Permata

TOTAL INVESTED CAPITAL CALCULATION

(in million of Rp)

Liabilities & Equity	2003	2004
LIABILITIES		
Borrowings	501,510	546,631
TOTAL LIABILITIES	501,510	546,631

SHAREHOLDERS' EQUITY	2003	2004
Additional Paid-in Capital	61,346	61,346
Unrealized (Losses) Gains on (Decrease) Increase in Value of Marketable Securities and Government Bonds Available-for-Sale-net of tax	-	(3,234)
Differences Arising from the Translation of Foreign Currency Financial Statements	98,715	107,945
Revaluation increase in Premises and Equipment	-	-
Share options	-	6,570
Retained Earnings (Accumulated Losses) (Rp 15,847,851 of accumulated losses was eliminated against general reserve, revaluation increase in premises and equipment, unrealized gains increase in value of marketable securities and Government bonds available-for-sale, revaluation increase in the fair value of net asset and additional paid-in capital after the effect of the reduction of issued and paid-up capital, as a result of the quasi-reorganization as of December 31, 2003)	0	821,582
SHAREHOLDERS' EQUITY - NET	162,064	996,213
TOTAL INVESTED CAPITAL	663,574	1,542,844

EVA Calculation

Item	2003	2004
NOPAT		
Operating profit	258,725	812,287
Interest income		
- income tax		
- tax shield on interest expense	-	-
NOPAT	258,725	812,287

Item	2003	2004
Capital charges		
Inv.capital beg of year		
Inv.capital end of year		
Inv.capital (average)	663,574	1,542,844
Capital charges	116,011	263,172
EVA	142,714	549,115

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Invested Capital	2,682,695	2,816,830	2,957,671	3,105,555	3,260,833	3,423,874	3,595,068	3,774,821	3,963,562	4,161,740	4,369,827
Total Borrowing	918,724										
EVA	67,644	99,195	133,731	171,474	212,656	257,527	306,354	359,420	417,027	479,495	547,169
Terminal Value EVA											4,136,067
PV EVA	67,644	85,190	98,770	109,064	116,642	121,981	125,483	127,484	128,267	128,066	127,078
Accumulated of PV EVA	2,196,258										960,589

Market Equity of the Firm (Fair Value)	3,960,229
51% of Market Equity of the Firm	2,019,717
Price to Book Value	2.31

Appendix E: Valuation of Bank International Indonesia

TOTAL INVESTED CAPITAL CALCULATION

(in million of Rp)

Liabilities & Equity	2003	2004
LIABILITIES		
Borrowings	501,510	546,631
TOTAL LIABILITIES	501,510	546,631

SHAREHOLDERS' EQUITY	2003	2004
Additional Paid-in Capital	61,346	61,346
Unrealized (Losses) Gains on (Decrease) Increase in Value of Marketable Securities and Government Bonds Available-for-Sale-net of tax	-	(3,234)
Differences Arising from the Translation of Foreign Currency Financial Statements	98,715	107,945
Revaluation increase in Premises and Equipment	-	-
Share options	-	6,570
Retained Earnings (Accumulated Losses) (Rp 15,847,851 of accumulated losses was eliminated against general reserve, revaluation increase in premises and equipment, unrealized gains increase in value of marketable securities and Government bonds available-for-sale, revaluation increase in the fair value of net asset and additional paid-in capital after the effect of the reduction of issued and paid-up capital, as a result of the quasi-reorganization as of December 31, 2003)	0	821,582
SHAREHOLDERS' EQUITY - NET	162,064	996,213
TOTAL INVESTED CAPITAL	663,574	1,542,844

EVA Calculation

Item	2003	2004
NOPAT		
Operating profit	258,725	812,287
Interest income		
- income tax		
- tax shield on interest expense	-	-
NOPAT	258,725	812,287

Item	2003	2004
Capital charges		
Inv.capital beg of year		
Inv.capital end of year		
Inv.capital (average)	663,574	1,542,844
Capital charges	116,011	263,172
EVA	142,714	549,115

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Estimated Growth of Invested Capital	5%										
WACC	17%	16.80%	16.60%	16.40%	16.20%	16.00%	15.80%	15.60%	15.40%	15.20%	15%
Spread EVA	-10.81%	-8.65%	-6.49%	-4.33%	-2.16%	0.00%	2.16%	4.33%	6.49%	8.65%	10.81%

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Invested Capital	3,879,766	4,073,754	4,277,442	4,491,314	4,715,880	4,951,674	5,199,258	5,459,220	5,732,181	6,018,790	6,319,730
Total Borrowing	501,510										

EVA	(419,562)	(352,432)	(277,540)	(194,278)	(101,996)	0	112,451	236,146	371,931	520,703	683,422
Terminal Value EVA											5,740,749
PV EVA	(419,562)	(301,740)	(203,791)	(122,555)	(55,371)	-	45,446	82,557	112,676	136,933	156,282
Accumulated of PV EVA	743,642										1,312,767

Market Equity of the Firm (Fair Value)	4,121,898
51% of Market Equity of the Firm	2,102,168
Price to Book Value	1.38

Appendix F: Valuation of Bank Central Asia

TOTAL INVESTED CAPITAL CALCULATION		(In million of Rp)			
Liabilities & Equity	2002	2003	2004	2005	
Marketable securities issued	112,883	252,202	425,039	652,439	
Borrowings	385,854	219,652	484,127	525,316	
TOTAL LIABILITIES	498,737	471,854	909,166	1,177,755	
Minority Interest	643	776	990	1,268	
Equity					
Share capital at par value of Rp 125 per share at year end 2004 and Rp 250 per share at year end 2003:					
Authorized capital: 44,000,000,000 shares at year end 2004 and 22,000,000,000 shares at year end 2003					
Issued and paid-up capital: 12,303,213,500 shares at year end 2004 and 6,131,134,500 shares at year end 2003					
Additional paid-in capital	1,504,381	1,504,381	1,504,381	1,504,381	
Financial statements translation adjustment	3,708,894	3,708,894	3,708,894	3,708,894	
Unrealized gain (loss) from changes in fair value of available-for-sale marketable securities	1,059,907	1,059,907	1,059,907	1,059,907	
Revaluation increment	193,254	193,254	193,254	193,254	
Stock options	2,147	2,147	2,147	2,147	
Retained earnings					
Appropriated for general reserve	232,357	232,357	232,357	232,357	
Unappropriated (after elimination of accumulated deficit of Rp 25,853.162 million through quasi reorganization on 31 October 2000)	4,806,970	4,806,970	4,806,970	4,806,970	
TOTAL EQUITY	11,507,910	11,507,910	11,507,910	11,507,910	
TOTAL INVESTED CAPITAL	12,007,290	11,980,540	12,418,066	12,686,933	

EVA CALCULATION					
Item	2002	2003	2004	2005	
NOPAT					
Operating profit	3,633,715	3,119,246	4,476,897	5,003,995	
Interest income					
- income tax	(858,435)	(748,723)	(1,333,099)	(1,525,937)	
- tax shield on interest	-	-	-	-	
NOPAT	2,775,280	2,370,523	3,143,798	3,478,058	
Capital charges					
Inv.capital beg of year		12,007,290	11,980,540	12,418,066	
Inv.capital end of year		11,980,540	12,418,066	12,686,933	
Inv.capital (average)	12,007,290	11,993,915	12,199,303	12,552,500	
Capital charges	2,264,635	2,150,701	2,119,098	2,180,451	
EVA	510,645	219,822	1,024,700	1,297,607	

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Invested Capital	12,007,290	12,607,655	13,238,037	13,899,939	14,594,936	15,324,683	16,090,917	16,895,463	17,740,236	18,627,248	19,558,610
Total Borrowing	498,737										
EVA	510,645	662,254	827,747	1,008,134	1,204,490	1,417,961	1,649,768	1,901,211	2,173,674	2,468,630	2,787,648
Terminal Value EVA											35,352,356
PV factor	1	0.848461	0.7322587	0.6429746	0.5745359	0.5225581	0.483892	0.4563128	0.438314	0.4289689	0.42785511
PV EVA	510,645	561,896	606,125	648,204	692,023	740,967	798,309	867,547	952,752	#####	1,192,709
Accumulated of PV EVA	23,755,829										15,125,686

Market Equity (Fair Value)	35,264,382
51% of Market Equity of the Firm	17,984,835
Price to Book Value	3.06