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THE SALIM GROUP IN INDONESIA: THE DEVELOPMENT AND BEHAVIOR OF THE LARGEST CONGLOMERATE IN SOUTHEAST ASIA

YURI SATO

INTRODUCTION

MORE than a quarter century ago the Soeharto government started its industrialization policy and which has led Indonesia on its present course of rapid economic development. This economic development has given rise to large-scale business groups which in recent years have been dubbed "*konglomerat*." The largest of these, the Salim Group, is the topic of this paper.

The Salim Group is a business group under the leadership of its founder, Liem Sioe Liong (Indonesian name, Soedono Salim; hereafter Liem), a first-generation overseas Chinese born on July 16, 1916 in Fujian province, Fuqing (Futsing) county, Haikou township, Niuzhai village. In 1938 Liem left Fujian and emigrated to central Java then part of the Dutch East Indies. Liem's business undertakings began to expand spectacularly after the Soeharto government came to power. By the early 1980s the Salim Group had become the largest business group in Indonesia. By the early 1990s (as shown in Tables I and II) its total sales equaled Rp.20 trillion (about U.S.$9.9 billion), it encompassed at least 427 affiliated companies, and it employed a total of 135,000 employees. The group's sales in 1992 accounted for 39 per cent of the total sales of the ten largest Indonesian business groups making the Salim Group far and away the largest "*konglomerat*" in the country and the largest in Southeast Asia ahead of those in Singapore, Taiwan, and Hong Kong and just behind the Republic of Korea. The reason for the Salim Group's rise to preeminence in Southeast Asia, and which makes it comparable to prewar Japanese business groups (zaibatsu) like Mitsui and Mitsubishi and like today's Korean business groups (*chaebol*) is the high degree of business diversification and the monopolistic and oligopolistic positions it holds in so many businesses.

The purpose of this paper is to describe the expansion and transformation process of the Salim Group during the Soeharto period relating it with the Indonesian industrialization process and clarifying the nature and the consistent behavior of this largest conglomerate in Southeast Asia.

TABLE I

INDONESIA'S TEN LARGEST BUSINESS GROUPS, 1992

Business Group	No. of Affiliated Companies[a]	Total Group Sales (Rp. billion)	Share among 10 Largest Groups (%)	Share among 100 Largest Groups (%)	Group Leader	(Chinese Name)
1. Salim	427	20,000	38.5	18.5	Soedono Salim	(Liem Sioe Liong)
2. Sinar Mas	153	6,700	12.9	6.2	Eka Tjipta Widjaja	(Oey Ek Tjhong)
3. Astra[b]	285	6,564	12.6	6.1	William Soeryadjaya	(Tjia Kian Liong)
4. Lippo	70	4,241	8.2	3.9	Mochtar Riady	(Lee Mo Tie)
5. Gudang Garam	11	3,290	6.3	3.0	Rachman Halim	(Tjoa To Hing)
6. Djarum	21	2,600	5.0	2.4	Robert Budi Hartono	(Oei Hwie Tjhong)
7. Dharmala	77	2,300	4.4	2.1	Suhargo Gondokusumo	(Go Ka Him)
8. Bob Hasan	25	2,196	4.2	2.0	Mohamad Hasan	(The Kian Seng)
9. Barito Pacific	32	2,050	3.9	1.9	Prajogo Pangestu	(Phang Djun Phin)
10. Argo Manunggal	50	2,040	3.9	1.9	The Ning King	(The Ning King)
Total sales for 10 largest groups		51,981	100.0	48.2		
Total sales for 100 largest groups		107,888	—	100.0		

Sources: For number of affiliated companies, Creative Information System of Indonesia, *A Study on Indonesian Private Banks, 1990,* Vol. 2 (Jakarta, 1990). For total group sales, *Warta ekonomi,* May 3, 1993.

[a] As of 1990.

[b] Before November 1992 when William Soeryadjaya sold his shares of P.T. Astra International.

TABLE II

COMPARISON OF LEADING BUSINESS GROUPS IN EAST AND SOUTHEAST ASIA

(U.S.$ million)

Country/ Region	Business Group	Group Sales	Group Assets	No. of Affiliated Companies	No. of Employees	Year of Survey
Rep. of Korea	Samsung	35,399	32,261	24	172,950	1990[a]
Indonesia	Salim	7,220	n.a.	427	135,000	1990
Singapore	OCBC	6,248	12,857	357	n.a.	1989[a,b]
Taiwan	Taiwan Plastic	6,216	6,887	17	47,000	1989
Hong Kong	Li Ka Shing	3,476	11,907	122	n.a.	1989
Thailand	Siam Cement	1,613	1,154	70	13,259	1988
Philippines	Ayala	715	2,833	43	n.a.	1989[c]
Japan	Toyota Motors	64,516	n.a.	n.a.	96,800	1990
U.S.A.	General Motors	125,126	n.a.	n.a.	761,400	1990

Sources: Republic of Korea: Management Efficiency Research Institute, *Osipdae gieop grup eu zaemuguzo* [Financial analysis of the fifty largest business groups] (Seoul, 1991); Tōyō-keizai-nippō-sha, *Tōyō kaisha nenkan* [Yearbook of East Asian companies] (Tokyo, 1991). Indonesia: *Warta ekonomi,* February 11, 1991; Creative Information System of Indonesia, *A Study on Indonesian Private Banks, 1990,* Vol. 2 (Jakarta, 1990); *Far Eastern Economic Review,* Vol. 151, No. 11 (March 14, 1991). Singapore: Datapool, *Singapore 1000, 1991* (Singapore, 1991); Stock Exchange of Singapore Ltd., *Companies Handbook, Book One 84* (Singapore, 1985), idem, *Companies Handbook, Book Two 84/85* (Singapore, 1986). Taiwan: Taiwan-kenkyūsho, *Taiwan sōran* [Taiwan survey for 1990] (Tokyo, 1990). Hong Kong: Nihon-keizai-chōsa-kyōgikai, *Honkon no zaibatsu to kigyō shūdan* [Hong Kong's zaibatsu and business groups] (Tokyo, 1990). Thailand: Akira Suehiro and Makoto Nambara, *Tai no zaibatsu—famirī bijinesu to keiei kaikaku* [Zaibatsu in Thailand: family business and management reforms] (Tokyo: Dōbunkan-shuppan, 1991), p. 317. Philippines: Foundation of Philippine Business, *Philippine Business Profile, 1990–91: 5000 Top Corporations* (Manila, 1991); Ayala Corporation, *Ayala Corporation: 1989 Annual Report* (Manila, 1990). Japan and U.S.A.: *Fortune,* July 29, 1991.

Notes:
1. The business groups listed are the ones considered to have the biggest sales in each of the countries or regions.
2. The Robert Kuok Group of Malaysia should be listed but the author was unable to get comparable figures for this group.
3. The turnover and total assets for the OCBC, Li Ka Shing, and Ayala groups were calculated by the author based on information in the above sources. The coverage of affiliated companies was as follows: OCBC is the total of fourteen companies including two unlisted companies from the sales ranking of 1,000 companies; the sales of the remaining companies in the group appear to be small. The Li Ka Shing Group is the total based on the consolidated accounts of four listed companies [Cheung Kong (Holdings) Ltd., Hutchison Whampoa Ltd., Cavendish International Ltd., Hong Kong Electric Holdings Ltd.]. The Ayala Group is the total of thirty-one companies from the sales ranking of 5,000 companies.
4. The number of employees for OCBC is the total for the ten listed companies and their affiliates (including those outside of Singapore); for the Li Ka Shing Group the number is the total that the author was able to ascertain for the affiliates of the four companies listed in no. 3 above.
5. Japan and the United States are based on consolidated accounts.

[a] The survey year ran from April to the following March.
[b] The number of affiliated companies is for 1986.
[c] The number of affiliated companies is as of April 1990.

I. THE DEVELOPMENT OF THE SALIM GROUP

A. *Trade Profits in the Early Years*

The start of Liem Sioe Liong's success story can be traced back to around 1967, soon after the Soeharto government came to power. With very little capital, his import-export business began reaping substantial profits, and with a few short years he had by the early 1970s put in place the capital foundation for the business group that he was to build.

The sources of Liem's profits were P.T. Waringin, a company exporting primary products, and P.T. Mega, which imported cloves. P.T. Waringin had been set up in 1953 apparently as an import company,[1] but from around 1967 it began exporting coffee, rubber, copra, and other primary products. Coffee and rubber were at that time important exports for Indonesia, and the international prices for these commodities were rising. In 1967 P.T. Waringin, which later was cited by the Presidential Commission of Inquiry into Corruption, received a licence to export five times more coffee than the formal quota that the government allotted to coffee exporters [17, pp. 15–16] [10, p. 302]. Meanwhile in 1968, P.T. Mega along with P.T. Mercu Buana, a company owned by Soeharto's younger stepbrother (the two had different fathers), Probosutedjo, were designated by a decree of the Minister of Trade (then, Dr. Sumitro Djojohadikusumo) as the exclusive importers of cloves. The import price for cloves and their selling price in the domestic market were set by the government, but both companies were guaranteed a 5 per cent commission. Clove imports went to satisfying the demand for clove cigarettes, a huge industry in the Indonesian manufacture at that time, and these imports provided Liem with stable annual revenues averaging U.S.$340,000 between 1968 and 1970, and U.S.$1.2 million between 1971 and 1980.

P.T. Waringin and P.T. Mega handled the import and export of important commodities; they had export licences beyond allocated quotas and held import monopolies. These advantages allowed them to reap big trade profits. Standing behind the exclusive privileges these companies held was said to be the close relationship between Liem and President Soeharto. During Indonesia's fight in the late 1940s against the Dutch who returned after Indonesia's declared independence, Liem started providing the nascent republic's army with supplies. Then in the early 1950s, as a trusted army supplier, Liem made the acquaintance of Lieutenant-Colonel Soeharto then an officer assigned to the Territorial Army IV (the Diponegoro Division in Central Java). From that time onward Liem supported Soeharto in the procurement of supplies [16, p. 36] [17, pp. 13–14].

[1] The most important data source on Indonesian companies that the author used was the articles of incorporation of limited liability companies (*perseroan terbatas* [P.T.]) contained in the *Tambahan berita negara* [Official gazette supplement] (hereafter *TBN*). According to *TBN* [5, 1969, No. 189], Waringin was set up in 1953 as a limited partnership (*commanditaire vennootschap* [C.V.]); in 1968 it was reorganized as a limited liability company (P.T.), and in 1969 was renamed P.T. Waringin Kencana.

TABLE

CHANGES IN ISSUED CAPITAL BY INDUSTRY

Year	Total Issued Capital (Rp. Million)	Manufacturing					
		Total	Textiles	Food & Consume. Products	Cement	Automobile	Wood & Wood Products
1957–67	3	—	—	—	—	—	—
1968	283	88.3	88.3	—	—	—	—
1969	533	65.6	46.9	18.8	—	—	—
1970	2,033	78.7	71.3	7.4	—	—	—
1971	2,329	77.1	62.3	6.4	—	2.4	6.0
1972	2,499	71.9	58.0	6.0	—	2.2	5.6
1973	3,916	71.4	37.0	3.8	15.3	11.6	3.6
1974	6,277	62.2	39.0	2.4	9.6	9.0	2.2
1975	8,494	46.0	28.8	1.8	7.1	6.7	1.6
1976	18,537	47.3	13.2	27.0	3.4	3.1	0.8
1977	38,375	58.3	6.4	14.3	34.0	3.1	0.4
1978	39,380	58.3	7.5	14.0	33.4	3.0	0.4
1979	50,165	60.2	6.4	11.0	40.2	2.4	0.3
1980	100,520	78.1	3.2	8.5	55.4	1.4	5.1
1981	226,176	87.0	1.5	3.8	66.7	2.0	2.3
1982	274,957	82.9	1.3	3.1	64.9	2.8	1.9
1983	480,288	88.5	1.0	2.8	39.6	1.6	1.1
1984	529,140	88.1	0.9	2.6	36.0	8.8	1.0
1985	619,197	88.4	0.8	2.3	43.9	7.5	0.8

Source: Calculated from the articles of incorporation for each company contained in *TBN*).
Notes: 1. Because figures have been rounded off, the totals do not always equal 100.0
2. —: No figures applicable.

B. *Diversification under Import-substitution Industrialization*

Using the trade profits he had built up by the end of the 1960s, Liem expanded his business activities, concentrating his efforts until the mid-1980s in import-substitution manufacturing. This effort was in line with the Soeharto government's policy of promoting import-substitution industries. Under this policy the government began promoting the localization of the final processing of consumer-goods and basic-materials production (such as fertilizers, cement, synthetic fibers, steel, aluminum smelting, and pulp and papers), and sought to proceed quickly through the stage of assembling capital goods to the manufacturing of components. This push to replace imports with local manufactures opened up simultaneous business opportunities in an array of business areas.

The process of expansion and diversification of the Salim Group from 1968 through 1985 is shown in Table III and Figure 1,[2] based on data obtained on

[2] As of 1985 it was estimated that 225 companies were affiliated with the Salim Group including its overseas affiliates. The number of domestic companies whose articles of incorporation were available to the author was 102, and it was possible to use the capitali-

III

WITHIN THE SALIM GROUP, 1957–85

(%)

Steel	Chemicals	Agribusiness	Banking & Financial Services	Real Estates	Trade	Others	No. of Companies
—	—	—	100.0	—	—	—	3
—	—	—	8.1	—	3.5	—	6
—	—	—	15.6	—	18.8	—	8
—	—	—	4.1	9.8	7.4	—	12
—	—	—	3.6	12.9	6.4	—	15
—	—	—	9.3	12.8	6.0	—	17
—	—	—	5.9	18.8	3.9	—	21
—	—	—	10.1	25.3	2.4	—	26
—	—	—	31.2	21.0	1.8	—	28
—	—	—	18.1	33.6	1.0	—	38
—	—	—	9.1	31.0	0.5	1.2	45
—	—	—	8.9	31.2	0.5	1.1	47
—	—	—	13.9	24.5	0.4	1.0	50
—	4.5	—	8.3	12.5	0.2	1.0	59
—	10.8	—	3.8	8.4	0.5	0.4	67
—	8.9	—	8.9	7.4	0.4	0.4	73
35.4	7.1	—	5.3	5.7	0.2	0.2	77
32.2	6.6	0.9	4.8	5.2	0.2	0.9	85
27.5	5.6	0.8	4.6	4.5	0.2	1.5	87

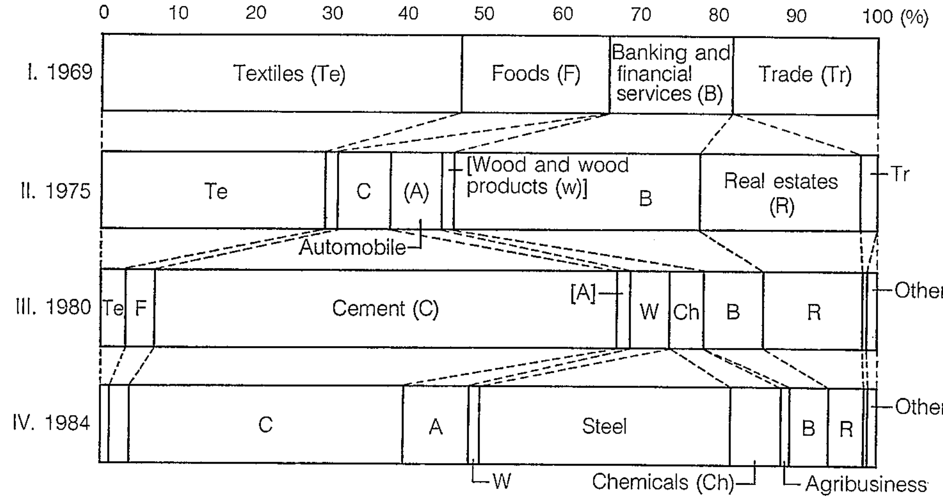
the Ministry of Justice, *Tambahan berita negara* [Official gazette supplement] (hereafter

per cent.

the issued capital of eighty-seven affiliated companies. The group's total capital during the fifteen years from 1970 grew at an average annual rate of 46 per cent, and by 1985 it had reached Rp.619.2 billion (about U.S.$550 million) over 300 times what it had been in 1970. The capital distribution by industry shows that from 1968 onward manufacturing was a major industry accounting for 50–90 per cent of total capital outlay, but that its focus shifted from light to heavy manufacturing, and that diversification continued to progress. In the following analysis the diversification of the Salim Group under the government's import-substitution policy will be broken down into four phases: (1) entry into manufacturing (1968–74), (2) setting up banking (1975–78), (3) expanding the cement business (1977–81), and (4) conglomerate diversification into unrelated businesses (1981–85). These four phases correspond to I–IV in Figure 1.

zation data on 87 of these. These 87 included most of the leading companies in the Salim Group's major industries, therefore one could say that the data coverage in terms of capital was 70–80 per cent of all the domestic companies.

Fig. 1. Changes in the Industrial Composition within the Salim Group



Sources: The same as Table III.

1. *Entry into manufacturing*

The period from 1968 to 1974 when it entered into manufacturing marked the first stage in the formation of the Salim Group as a business group. In 1968 Liem set up P.T. Tarumatex (P.T. Industri Textiel Taruma), an integrated cotton spinning-weaving company. This was followed in 1969 by P.T. Boga Sari, a flour milling company (in 1970 renamed P.T. Bogasari Flour Mills). With these new companies, Liem shifted the emphasis of his business activities from trading and banking to manufacturing. In 1969 the group's businesses fell into the four sectors of textiles, flour milling (classified under "Foods" in Table III and Figure 1), trading, and finance; until 1974 textiles accounted for the largest share. During the early 1970s Liem also moved into automobile assembling, forestry, real estate, and construction. Thus even before the mid-1970s signs of conglomerate diversification had already begun to appear.

Liem's textile and flour-milling companies received the direct support of the government. P.T. Bogasari was given the milling rights for the western part of Indonesia including Java and Sumatra which accounted for around 80 per cent of the domestic demand for wheat flour. The company, together with P.T. Prima Indonesia which had the milling rights for eastern Indonesia, became the first domestic producer of wheat flour,[3] one of the top government priority items for

[3] P.T. Prima Indonesia was originally a joint venture with a Singapore firm, but after this foreign firm was withdrawn, it was made a subsidiary of a state-owned corporation and was renamed P.T. Berdikari Sari Utama Flour Mill. Then from 1982 its management was entrusted to P.T. Bogasari. This move in effect gave P.T. Bogasari the right to mill flour for the whole of Indonesia.

import substitution. P.T. Bogasari received approval to invest in the construction of a factory with unusual speed, only five days after the company's establishment. Furthermore, P.T. Bogasari received direct loan from the central bank, although such loan was rare except for certain state-owned corporations [4, p. 24] [17, p. 20]. Meanwhile in the textile industry, numerous new companies entered the field by the first half of the 1970s, and rapid advancements were made in spinning, in automated weaving, in spinning-weaving integration, and in synthetic fibers production. In 1970, the midst of this growing competition, Liem's P.T. Tarumatex received an order for uniforms worth the equivalent of U.S.$1.7 million from Indonesian army. By 1979 his company was receiving Rp.6.9 billion in state bank loan, 5.5 times more than his original capital outlay [17, p. 15] [10, p. 303]. However, Liem's textile business was given only a certain period to profit from its privileges. Thereafter competition with other local manufacturers who had tie-ups with Japanese textile makers grew fierce, and his textile business ceased expanding.

As can be seen from the above, Liem's first ventures into manufacturing started with support from the Soeharto government for both financing and markets. In the import-export trade, then in textiles and flour milling, Liem acquired exclusive economic privileges, and that is why by 1972–73 his name had become widely known as one of the *cukong*, Indonesian-Chinese businessmen associated with political figures.

2. *Setting up banking*

The period from 1975 to the beginning of the 1980s was the time during which the framework of the Salim Group as a business group came into being. Its banking and cement ventures expanded rapidly during this time in step with the oil boom in Indonesian economy. In 1978 the group's bank became the nation's top private commercial bank; in 1983 the group's cement companies became the largest domestic producers having the greatest total productive capacity. Such growth secured the Salim Group's position as Indonesia's largest business group.

Liem's start in banking went back to 1957 with the establishment of the Bank Central Asia (BCA). This organization had actually begun as a knitting company in Semarang in 1955, and Liem had acquired it and reorganized it as a bank in Jakarta in 1957 [5, 1956, No. 595] [5, 1957, No. 965]. But thereafter the BCA experienced no capital increase or growth worthy of mention. As of the end of 1973 the bank remained a non-foreign exchange bank with but one branch office, and it ranked No. 23 among Indonesia's fifty-eight private commercial banks in the size of its assets (as of the end of 1974). If one includes the assets of Indonesia's state commercial banks (but excludes those of the central bank), the total assets of fifty-eight private banks came to a mere 7 per cent of all bank assets in Indonesia. Given its small size and lack of foreign exchange operations, the BCA from its start was unable to render service in settling trading accounts for businesses within the group or for procuring capital. At most it was only able to handle receipts and payments in rupiahs within the group.

The fortunes of the BCA changed dramatically with the appointment of Mochtar Riady as president (later vice-president) in May 1975. At the time Mochtar was president of the Panin Bank then Indonesia's preeminent private bank. Prior to joining the Panin Bank, Mochtar had carried out the rehabilitation of two other banks. Liem induced Mochtar to head the BCA giving him 17.5 per cent of the shares in the bank and entrusted him with directing the BCA for the next fifteen years. Born on May 12, 1929 in Malang in East Java of Chinese Fujian ancestry with the Chinese name Lie Mo Tie, Mochtar commenced his "BCA reforms" immediately after his appointment, the main points of which were: (a) a wholesale increase in the bank's net worth—from the Rp.2.5 million of issued capital existing since the end of the 1950s to Rp.2.5 billion carried out through a capital increase between 1974 and 1976; (b) expansion of the branch network—twelve branches opened by the end of 1976; (c) clientele solicitation and cultivation; (d) lending at interest rates lower than other private banks—2 per cent per month; and (e) being raised to the rank of a foreign exchange bank—achieved in March 1977 [2, pp. 4–6] [5, 1976, Nos. 257–59].

Of the five above points, one can see particularly in points (a), (c), and (d) the relationship between the BCA and the rest of the Salim Group. In carrying out point (a), the profits of the other group businesses provided the financial sources for the bank's huge capital increase [2, p. 5]; and the fact that President Soeharto's eldest son and eldest daughter participated in 1974 as BCA's stockholders and supervisory board members (*komisaris*) indicates a possibility that the profits from the flour milling and the other group businesses which had the government's direct backing were included in the BCA's capital increase.[4] To achieve point (c), clientele solicitation and cultivation, distributors of the cement which the group began producing in 1975 became the first suitable targets for this effort; each distributor was asked to transfer the amounts of their cement purchases as cash advanced payments to the BCA; in this way the bank expanded its clientele and at the same time the cement business's sales flowed directly into the BCA [16, p. 46]. This technique was later also applied to the distribution network of the group's automobile business. In point (d), to raise low-cost funds needed for relatively low interest-rate lending, Liem and Mochtar jointly set up a deposit taking company, the Central Asia Capital Corporation in Hong Kong in May 1975. In carrying out the above three points, Mochtar succeeded in utilizing all of Liem's political and financial connections. Likewise it was because the BCA had the backing of other companies within the group that it was able to achieve a spectacular rate of growth far beyond the capabilities of any independent private bank.

[4] According to *TBN* [5, 1976, No. 258 and No. 259], President Soeharto's eldest son, Sigit Harjojudanto, and his eldest daughter, Siti Hardijanti, first appeared as members on BCA's supervisory board in May 1974. In August 1974, at the time the bank increased its capital from Rp.500 million to Rp.1 billion, both became new shareholders with a 20 per cent and 10 per cent capital subscription respectively. With the bank's capital increase to Rp.1.8 billion in March 1975, Mochtar Riady emerged as the biggest shareholder with 17.5 per cent while Sigit's and Siti's shares came to 16.7 per cent and 13.3 per cent respectively. Liem held 5 per cent while the Liem family (including Liem) held 24 per cent. This shareholding composition continued until Mochtar left the BCA at the end of 1990.

TABLE IV

GROWTH OF THE BANK CENTRAL ASIA, 1973–90

(Rp. million)

Year	Total Assets	Total Deposits	Loans Outstanding	Paid-up Capital	After-Tax Profits	No. of Branches	No. of Employees
1973	n.a.	n.a.	n.a.	2.5	n.a.	1	n.a.
1974	998	24	426	500	39	4	112
1975	12,800	10,766	5,800	1,800	106	4	298
1976	17,523	12,401	8,961	2,500	203	12	620
1977	24,843	19,100	12,607	2,500	252	13	828
1978	37,274	29,045	21,729	2,500	323	15	975
1979	64,628	51,845	27,496	n.a.	n.a.	n.a.	n.a.
1980	107,462	88,178	44,239	6,000	1,104	22	1,527
1981	174,462	143,388	68,933	6,000	1,479	24	1,871
1982	240,580	202,121	95,248	15,860	2,050	26	2,207
1983	386,681	290,835	133,649	22,000	5,053	27	2,084
1984	464,798	345,462	287,254	22,000	7,647	29	2,741
1985	707,909	534,047	425,824	22,000	n.a.	n.a.	n.a.
1986	1,045,290	792,088	626,245	32,000	8,276	34	3,474
1987	1,526,283	1,128,929	928,517	32,000	11,023	40	3,904
1988	2,311,055	1,736,229	1,254,755	32,000	16,234	50	4,641
1989	4,172,054	3,408,471	2,327,099	42,678	21,794	173	8,119
1990	7,439,999	5,890,264	4,972,200	42,678	36,714	321	12,883

Sources: Bank Central Asia, *Laporan tahunan Bank Central Asia* [Bank Central Asia annual report] (Jakarta), various editions.

Table IV shows the figures for the growth of the BCA after Mochtar's reforms. Deposits, loans, and the number of emplolyees from 1975 through 1990 grew at the average annual rates of 52 per cent, 57 per cent, and 29 per cent respectively. The BCA became the largest of all national private banks in 1976 in terms of equity capital, and in 1978 in terms of assets. In 1983 it moved ahead of Citibank, the top foreign bank branch in Indonesia, and as of 1992 the BCA stood as the fifth largest bank in the country, behind only the four state commercial banks. The BCA was not just experiencing quantitative growth; it was also playing a leading role in developing the quality of banking services in Indonesia. In 1980 it began issuing its own credit card, the BCA Card, and in the same year it introduced the use of computers; in 1988 it began issuing VISA traveler's checks; and in 1989 it introduced automatic teller machines and successfully developed a new saving deposit product called "Tahapan" (*tabungan hari depan* meaning "tomorrow's savings"). All of these BCA moves were firsts in Indonesia's banking world [1, 1990 edition].

3. *Expanding the cement business*

The Salim Group entered the cement industry in 1973. At the start of the Soeharto government, Liem was sure there were good profits to be made in clothing, food, and shelter [7, p. 71]. He first moved into textiles, then into flour milling; thereafter with housing development becoming a promising field, Liem saw a good opportunity in cement, a basic material in housing construction. But unlike textiles and flour milling, cement production required huge fixed capital investment into plants and equipments. With this in mind, the following three features need to be noted about the Salim Group's cement business.

The first is that until the mid-1980s, of all the business within the Salim Group, the cement industry received the largest amount of investment. As can be seen in Table III, from 1977 to 1985, the cement industry accounted for an extremely high portion of the total equity capital for all the group's businesses, the lowest being 33 per cent (in 1978) and going as high as 67 per cent (in 1981). In combined equity and loan capital, cumulative investment into the cement industry reached Rp. 1.2 trillion accounting for 23 per cent of the whole group's total investment of Rp.5.3 trillion [17, p. 24–25].

The second feature is that Liem's cement business expanded extremely rapidly. During the eight years following its start of commercial production in 1975, it acquired 40 per cent of the market to become the largest domestic cement producer (see Table V). At the start of the Soeharto era, the major cement producers were state-owned corporations which had been set up back in colonial and Soekarno times. Then Liem moved into the industry as one of the pioneer private cement producers who foresaw the economy's recovery and the accompanying growth in demand for cement. To overcome the long-standing market advantage held by the state-owned corporations and to beat out foreign investors who were also moving into the industry, Liem set up successively seven cement companies with nine kilns each with a capacity of 1–1.5 million tons and put them into operation every one to two years between 1973 and 1981. The group's total annual cement production capacity rose from 0.5 million tons in 1975 to 4.7 million tons in 1983, surpassing that of the so far largest, state-owned producer, P.T. (Persero) Semen Gresik and its affiliates. In 1985 it reached 8.9 million tons, exceeding in just ten years the production capacity of Thailand's Siam Cement Co., until then the leading cement producer in Southeast Asia and whose annual capacity after thirty years of operation had reached 7.45 million tons (in 1988).

The third feature of the cement business is that Liem utilized large amounts of overseas financing. Until then, like most of other private national companies, domestic state bank loan had been the major source of the group's investment funding. However, kilns No. 1 and No. 2 were built with the financial assistance of the then general manager of the Bangkok Bank, Chin Sophonpanit of Thailand, and the Chien Tai Cement Co. of Taiwan;[5] for kilns No. 6, No. 7, and No. 8,

[5] The operating company of kilns No. 1 and No. 2, P.T. Distinct Indonesia Cement Enterprise, was set up as a foreign joint venture with Distinct Investment Co., Ltd. of Hong Kong which held 44 per cent in the company. But its actual financial connection with Chien Tai Cement and the Bangkok Bank is shown in: (1) *Tambahan berita negara* [5, 1974, No. 458], which states that Chin Sophonpanit was appointed as vice-chairman of the supervisory board at the time the joint venture was set up; (2) all of the members of the board of directors, except the president director, were Taiwanese living in Singapore; and (3) interviews by the author on May 27, 1993 with a person who had worked in the representative office of Marubeni Corp. in Indonesia during the 1970s.

TABLE V
SALIM GROUP'S CEMENT BUSINESS

A. Production Capacity

(1,000 tons/year)

Company Name		Year Set Up	Year Production Began	Production Capacity	Total Capacity	% of Total Domestic Production Capacity
1. P.T. Distinct Indonesia Cement Enterprise	Kiln No. 1	1973	1975	500	500	24
	Kiln No. 2		1976	500	1,000	39
2. P.T. Perkasa Indonesia Cement Enterprise	Kiln No. 3	1973	1979	1,000	2,000	34
	Kiln No. 4		1980	1,000	3,000	35
3. P.T. Perkasa Indah Indonesia Cement Putih Enterprise	Kiln No. 5	1978	1981	200	3,200	37
4. P.T. Perkasa Agung Utama Indonesia Cement Enterprise	Kiln No. 6	1979	1983	1,500	4,700	40
5. P.T. Perkasa Inti Abadi Indonesia Cement Enterprise	Kiln No. 7	1980	1984	1,500	6,200	46
6. P.T. Perkasa Abadi Mulia Indonesia Cement Enterprise	Kiln No. 8	1980	1985	1,500	7,700	
7. P.T. Tridaya Manunggal Perkasa Cement	Kiln No. 9	1981	1985	1,200	8,900	51[a]
8. P.T. Indocement Tunggal Prakarsa[b]		1985		8,900	8,900	51

TABLE V (Continued)

B. Capital Procurement

	Means of Capital Procurement
Kilns No. 1, No. 2	Financial assistance by the Bangkok Bank and Chien Tai Cement Co., Ltd.
Kilns No. 3, No. 4	n.a.
Kiln No. 5	15% shareholding by the Onggo Group.
Kiln No. 6	Export credit by the Export-Import Bank of Spain; U.S.$45 million syndicate loan by the American Express Bank (Hong Kong branch) as a lead manager.
Kilns No. 7, No. 8	Export credit by the Export-Import Bank of France; U.S.$120 million syndicate loan by the Crédit Lyonnais (Singapore branch) as a lead manager.
Kiln No. 9	22.5% shareholding by the Sahid Group; 15% shareholding by the Jaya Group.

Sources: For production capacity, each of the companies' articles of incorporation in *TBN*; P.T. Indocement Tunggal Prakarsa, *Prospektus* [Prospectus] (Jakarta, 1989); and pamphlets by Asosiasi Semen Indonesia (Indonesian Cement Association). For information on capital procurement, interview with Judiono Tosin (Executive Director of the Salim Group) on November 8, 1991 and also from *TBN*, 1974, No. 458.

[a] Includes the percentage for Kiln No. 8 which also began operation in 1985.

[b] Built no new kiln; merged companies Nos. 1–6 into one company absorbed company No. 7 in 1991.

which cost U.S.$150–200 million each, investment funding came from export credit and syndicate loans from European and American banks (see Table V). In this way Liem took the lead among Indonesian private enterprises in borrowing formally from overseas lenders, which at the same time openly showed the confidence that international financial circles had in Liem. However this huge debt to overseas lenders left bills that would have to be paid in the years to come.

At the same time that he was expanding his cement operations, Liem was also expanding his business in real estate, a sector which created a demand for cement. The establishment of his operations in the real estate sector went back to 1970, and in 1972 he started a joint venture with Ciputra (Tjie Tjien Hoan, leader of the Jaya Group), the leading businessman in Indonesia's construction industry. However, it was not until 1976, a year after his cement business began operation, that Liem began to invest seriously in real estate, notably his investment into a housing tract in the southern part of Jakarta, into golf-course development, and into office building construction, and he continued this investment until the beginning of the 1980s (see Table III).

4. *Conglomerate diversification*

From around 1981 when its banking and cement operations had become largely established, the Salim Group began to make substantial efforts at conglomerate diversification, and by around 1985 it had established itself as a highly diversified conglomerate containing numerous oligopolistic companies.

Looking at the capital distribution by industry within the group (shown in Figure 1-IV), it can be seen that the portion for the cement business, though still remaining large, had already peaked, and a bigger share had started to spread to the steel, automobile, chemical, food, and agribusiness industries. The wide variety of new products that started to be produced during this period were (in parentheses the year the company was established or acquired): motorcycle and commercial-vehicle assembling and component manufacturing, tire cord, instant noodles (all in 1981), plastic-injection automobile components (in 1982), alkylbenzene, cooking oils, plantations, cardboard boxes, cold-rolled steel (all in 1983), snack food, milk products, shrimp farming, automobile engine assembling (all in 1984), baby cereal, and pig farming (both in 1985).

The economic environment during this period of diversification changed from the second oil boom of 1979–81 to the oil-glut recession of 1982–86. The recession depressed the Salim Group's long-established cement and flour milling businesses. The slump in these old-line businesses, however, spurred the need for the group to overcome its difficulties by moving into different lines of business. Thus from the standpoint of the group's business as a whole, this recession provided a prime opportunity for the Salim Group to establish itself as a highly diversified business entity. The capital needed for this diversified expansion was raised through the state commercial banks, whose opportunities to lend to promising ventures had been reduced by the recession, and through international financial markets. Many of the group's companies captured a large market share in the product lines they newly entered. For example, as of 1988, in automobile assembling they held 28 per cent of the market, in instant noodles 75 per cent, in cooking oils 40 per cent, in snacks 50 per cent, in condensed milk 36 per cent, in baby cereal 20 per cent [12].

C. *Export-Oriented Business Restructuring*

The recession of the mid-1980s induced fundamental structural changes in the Indonesian economy. The turning point came in 1983 when economic policy shifted from emphasizing import substitution industries which remained dependent on Indonesia's oil export revenues, to promoting export-oriented industries that manufactured goods for export. At the same time the policy of protection and subsidies for domestic industries was gradually replaced by deregulation and competition. The effects of this policy change became apparent from 1987 onward with the dramatic increase in the export of manufactured goods.

Looking at the impact that this structural change in the economy could be expected to have on Indonesia's domestic industry, Richard Robison wrote in 1988: "A change of policy therefore constitutes a direct threat to the underpinnings of the political-economic alliance that dominates Indonesia" [11, p. 67]. It is "a threat to the upstream producers and importers who have so far been protected and subsidized." [11, p. 71]. For Robison, the Salim Group, which had expanded and diversified so greatly since the end of 1960s under the Soeharto government's import-substitution and protection policies, exemplified the "political-economic alliance" now under threat [10, p. 297]. But quite contrary to Robison's prognosis, rather than being a threat to the Salim Group's further development, the structural changes of the 1980s in Indonesian economy provided the group with another opportunity for rapid expansion. The group (1) liquidated the debt burden of its import substitution industries using its "political-economic alliance" to the maximum, (2) shifted investment priority to promising new industries, and (3) began developing not only export-oriented but also across-border manufacturing businesses. These three points will be looked at more closely below.

1. *The restructuring of debt-ridden industries*

The loss-making industries in the Salim Group were the cement and cold-rolled steel businesses. Both businesses had been financed with large amounts of overseas borrowing, and with the depreciation of the rupiah, the debt repayments had ballooned. Furthermore, because of technical problems, cold-rolled steel had since its inception never produced the returns that had been expected. The Salim Group now drew up plans to lighten the debt burden of these industries. Noteworthy in these plans is that the burden was shifted onto the government and onto the general investors.

The following steps were taken to liquidate the cement business debt: (a) to avoid currency exchange risks, syndicate loans in foreign currency were converted by the state banks into rupiah denominated funds in 1983, then when repayments came due in 1985, the group asked that these be rescheduled; (b) in June 1985, directly after the group's six affiliated cement companies were incorporated into P.T. Indocement Tunggal Prakarsa (hereafter P.T. Indocement), the government, by an exceptional government regulation (No. 22, 1985), bought up 120,000 shares (30,000 outstanding shares and 90,000 new shares) in this company for Rp.364.3 billion; (c) in 1989 three social foundations headed by President Soeharto purchased Rp.60 billion worth of P.T. Indocement's convertible bands to assist with fund management; (d) in October 1989 another exceptional ministerial decree made possible the listing of P.T. Indocement on the Jakarta stock exchange market although the company had not made profits during the previous two years which was a requirement for listing; the company then proceeded to raise Rp.598.9 billion (about U.S.$3.4 billion, 10 per cent of its total shares) the highest amount ever raised on the Jakarta stock market, Rp.336 billion or 56 per cent of which went for debt repayment. The result of this series of exceptional moves was that by the end of 1989, P.T. Indocement had moved into the black, and by the end of 1990 it had been transformed into a highly profitable company with a sales profit ratio as high as 37 per cent [9].

Turning to cold-rolled steel, P.T. Cold Rolling Mill Indonesia Utama, a joint venture between the state-owned steel company, P.T. Krakatau Steel and the Salim Group, received relief financing in the form of a capital increase by P.T. Krakatau Steel, which borrowed these funds from the state banks several times after March 1989. Also the government asked the Salim Group to increase the group's capital outlays to P.T. Cold Rolling Mill Indonesia Utama by a total of U.S.$290 million. But the Salim Group turned this request down, and at the end of 1990 it sold all of its shareholdings to P.T. Krakatau Steel and withdrew from the cold-rolled steel business.

2. *Investing into new domestic industries*

As seen from the above, the Salim Group drew out as much relief and assistance as possible from the government, and with little new financing of its own, it was able to turn its cement business into the black and liquidate its cold-rolled steel business. At much the same time, the Salim Group was giving greater priority to investing in new industries. During the second half of the 1980s the following lines of business were added to the group: agribusiness, oleochemicals, labor-intensive export manufacturing (such as sports shoes, toys, garments, leather goods, and gift items), industrial estates, and tourism. Among these, the first two received the largest amount of investment. In 1985 cement and cold-rolled steel had accounted for 71 per cent of the group's total capital; agribusiness and chemicals accounted for less than 7 per cent (see Table III). In 1990 turnover from the chemical sector reached Rp.800 billion surpassing the Rp.780 billion from the cement sector. In the same year the combined turnover of chemicals and agribusiness plus foods (including consumer goods) accounted for 26 per cent of the group's total turnover. Thus the industrial composition of the Salim Group was being restructured, and importance was shifting from cement and cold-rolled steel to agribusiness and chemicals.

The agribusiness and chemical sectors cover an extremely wide range of products [13]. In the agribusiness, one of the Salim Group's production centers, where construction has been going forward since 1985, is the Bulan Complex on Bulan island, one of the islands of the Riau archipelago. This production center began with pig farming (standing at 200,000 head in 1991), and now carries on shrimp, alligator, fish and poultry farming, hybrid corn production for pig feed, as well as orchid, fruit, and vegetable cultivation. Along with the Bulan Complex, the Salim Group also has important oil palm and sugarcane plantations and soybean farms whose crops are processed into products within the group. Sugarcane is the raw material for sugar and monosodium glutamate; soybeans are processed into soybean oil and flour, palm oil is the raw material for cooking oils and oleochemicals. As of the end of 1990, the group's oil palm plantations covered 270,000 hectares of which 80,000 hectares could be harvested. These plantations provided an annual supply of 140,000 tons of crude palm oil and 16,000 tons of crude palm kernel oil. Part of this crude oil is processed into fatty acid, fatty alcohol, glyceline, and various surfactants that are the raw materials of detergent and shampoo. In addition to these, and falling into the chemical sector in the broad sense, is the production of alkyl-benzene, a petrochemical material used in the manufacture of detergent.

The above new industries differ from earlier Salim Group businesses in the following three ways. The first is that these new industries follow a vertical production chain. The Salim Group sees great potential in industries based on plantation and horticultural crops and on petroleum, resources which Indonesia produces in abundance. From the raw-material production stage through the primary- and secondary-processing stage to the distribution and sales stage, the group has been working to keep all steps of these industries within itself. This approach to developing industries was not seen in the group's earlier conglomerate diversification where investment had been scattered among various unrelated industries.

The second difference is that many of the products from these new industries are for export markets. Most of the livestock and horticultural products coming out of the Bulan Complex are for export. Oleochemicals and petrochemicals are basically import-substitution industries, but not a few of their products are exported. These include such byproducts as palm kernel pellets, soybean feed, and heavy alkylate, and intermediate products such a glycerine, fatty alcohol, and those products like alkyl-benzene whose production satisfies domestic demand and leaves a surplus which is exported. This is very different from most of the previous businesses within the Salim Group which confined themselves to the domestic market.

The third difference is that the production areas of the Salim Group have spread geographically as these new industries have grown and developed. The earlier main businesses were concentrated in Jakarta (flour milling, automobiles, finance, real estate) and West Java (cement, cold-rolled steel). But the new industries are spread from North Sumatra (oil-palm plantations, oleochemicals), Riau (Bulan Complex, oil-palm plantations, soybeans), and South Sumatra (soybeans, sugar cane) to South Kalimantan (plantations) and Lombok (garlic cultivation), with Sumatra being the important production base.

3. *Extension of the group production chain overseas*

Restructuring of the Salim Group's domestic businesses was closely connected with a change in the group's overseas operations which had centered on Hong

Kong and the Netherlands. Now Singapore arose as the new center of operations. The result of the coinciding domestic and overseas changes was that from around 1988 the businesses connected with domestic enterprises began to expand their operations overseas centering on Singapore.

Until recent years the Salim Group's overseas operations were practically synonymous with the First Pacific Group. Set up in 1981, the First Pacific Group is a group of companies under direct and indirect shareholding by the First Pacific Company Ltd. (registered in Bermuda) and has its headquarters in Hong Kong. The group's total turnover in 1991 was U.S.$2.53 billion and its profit after taxation was U.S.$75.5 million. Its four main lines of business have been (a) the distribution and sales of consumer goods, (b) finance, (c) real estate, and (d) communications; the share of sales (and profits) that each of these sectors accounted for in 1991 was respectively 86 per cent (55 per cent), 4 per cent (14 per cent), 2 per cent (17 per cent) and 8 per cent (14 per cent). The group added to its distribution and sales operations through buy-outs of the long-established Dutch trading company Hagemeyer N.V., the Thai trading company Berli Jucker Co. Ltd., and Metro Drugs, Inc. of the Philippines; Hagemeyer had an extensive network of overseas subsidiaries spanning at least twenty-one countries in Europe and Asia. The ratio of sales by region in 1991 for the First Pacific Group as a whole was: Asia 45 per cent, Europe 35 per cent, and North America 20 per cent [3, 1991].

But from the end of the 1980s the Salim Group's overseas operations outside the First Pacific Group began to appear. One such case is the KMP Group centered on Singapore. This is a group of companies whose holding company, KMP Pte. Ltd., was set up by the Salim Group in Singapore in 1983. That year KMP set up three subsidiaries, but in the following years KMP showed little activity. Then in 1990 the situation changed completely. As Table VI shows, during that year KMP set up two companies, acquired three companies, and incorporated three more companies into the KMP Group through a minority share acquisition. One of the incorporated companies was United Industrial Corporation Ltd. (UIC), which was a holding company of the UIC Group with thirty-one subsidiaries and fifteen allied companies.[6] The lines of business carried on by these companies included animal feed, plastic containers, poultry and meat processing, coastal shipping, and the franchises for Kentucky Fried Chicken and Shakey's Pizza. The UIC Group had its origins in the manufacturing of synthetic detergent. Thus the purpose for establishing and acquiring these companies lay in their vertical production chains of domestic operations. These included the transporting and butchering of chickens raised in Riau, chicken-meat processing, chicken-food preparation and sales, fresh-pork processing and packing, supplying feed to Riau, and the secondary processing and distribution of domestic raw materials for making detergent.

[6] The largest shareholder in UIC Ltd. before acquisition by the Salim Group was Oei Hong Leong, an Indonesian-born Chinese, the second son of Eka Tjipta Widjaja who was the leader of the Sinar Mas Group, at that time the third largest business group in Indonesia. Around the time of the UIC acquisition, many of the domestic joint ventures between the Salim and Sinar Mas groups also split off.

TABLE

THE MAJOR AFFILIATES

Company Name	Year Set Up/ Acquired	Capital Subscription by KMP Pte. Ltd.	
		Share (%)	Amount (U.S.$ Million)
KMP Pte. Ltd.	1983	—	—
Singapore Indusco Holdings Pte. Ltd.	1967	32.0	3.70
KMP Investments Pte. Ltd.	1983	100.0	2.00
KMP Properties Pte. Ltd.	1983	100.0	1.00
KMP Credit Pte. Ltd.	1983	100.0	0.50
Sinpac Investment Pte. Ltd.	1989	55.0	3.00
KMP-Hai Sun Hup Shipping Pte. Ltd.	1990	60.0	0.06
KMP Coastal Oil Pte. Ltd.	1990	49.9	0.05
KMP Feedmills Pte. Ltd.	1990	74.0	10.71
Lamipak KMP Pte. Ltd.	1990	99.9	8.75
KMP Food Industries Pte. Ltd.	1990	99.9	5.00
Inno-Pacific Holdings Ltd.	1990	20.0	15.00
Shakey's Holdings Pte. Ltd.	1990	11.0	4.40
United Industrial Corporation Ltd.	1990	24.5	380.00
Total amount invested by KMP Pte. Ltd.			434.26

Source: *Business Times* (Singapore), January 25, 1991.
Note: As of the end of 1990 there were at least twenty-three companies affiliated with the percentage and the amount of KMP Pte. Ltd. capital subscription.

Starting in 1988, two years before KMP's rush of expansion, Salim Group headquarter in Jakarta began to work separately with both the First Pacific Group and KMP Group in establishing overseas chemical operations. By 1991 the locations (and products) of these operations, which the author has identified, were: Singapore (alcohol ethoxylate), the Philippines (alkyl-benzene), Vietnam (synthetic detergent), Australia (surfactants, phosphates), the former Soviet Union (palm-oil refining), former West Germany (sodium lauryl sulphase, ether sulphate), former East Germany (fatty alcohol, sorbitol, alkyl-benzene), China, Fujian province (palm-oil refining) [13]. A common feature among all these ventures is that their raw materials are supplied from domestic Indonesian companies within the Salim Group.

The above series of domestic and overseas moves carried out by the Salim Group after 1987 can be summed up in the following way. To cope with the shift in Indonesia's economy toward export-oriented industries, the Salim Group selectively reexamined its diversified conglomerate interests within Indonesia's domestic market and at the same time introduced a new program to develop

VI
UNDER THE KMP GROUP

Type of Business	Newly Set Up/Acquisition/ Capital Participation (CP)
Holding company of the KMP Group	Newly set up
Investment company	Unknown
Import-export/investment company	Newly set up (formerly KMP Marketing Pte. Ltd.
Holding company	Newly set up
Money lending/agencies	Newly set up
Investment company	Unknown
Barge, tugboat & sampan services	Newly set up
Warehousing/petroleum products	Newly set up
Manufacture of animal feeds	Acquisition of Gold Coin Singapore Pte. Ltd.
Manufacture of plastics/household wares	Acquisition of Lamipak Pte. Ltd.
Production/processing of meat & poultry	Acquisition of Abalon Bay Pte. Ltd.
Franchise holder of Kentucky Fried Chicken	CP
Franchise holder of Shakey's	CP
Holding company of the UIC Group	Acquisition of shares hold by Oei Hong Leong, largest shareholder

the KMP Group, but the table shows only the thirteen affiliates where the author has verified

vertically integrated businesses that were tied into overseas markets. The group selected oleochemicals and agribusiness as the industries where it would pursue its new program of vertically integrated operations. These vertical production chains extended overseas, and Singapore became the new base of operations where the group began to set up and acquire companies related to the above two industries. The outcome of these developments is that vertically integrated businesses centering on Indonesia and Singapore and extending from China, Vietnam, and Australia all the way to Europe are now being built up within the Salim Group.

Thus the Salim Group is in the process of transforming itself from being Indonesia's largest conglomerate to being a conglomerate that is making Indonesia the largest base of raw material production and processing, and whose business operations are now taking place across the broad expanses of Asia. Today with East and Southeast Asia becoming the world's most dynamic region of economic growth and with the regional economic integration within Asia rapidly moving ahead, the Salim Group is sure to become a still more influential economic actor in Asia's future across-border business activities.

II. THE SALIM GROUP'S STRUCTURE OF OWNERSHIP AND MANAGEMENT

A. *Joint Ownership and Joint Management with Business Partners*

As the Salim Group evolved, a noteworthy feature of its ownership-management structure was joint ownership and joint management with business partners. The Salim Group undertook joint ownership and joint management with different business partners in each of the diversified business fields that became affiliated with the group. This sort of ownership-management structure was maintained at least until the mid-1980s.

Table VII presents the ownership-management structure of the major companies within the Salim Group as of 1985. From the table one can see that there were broadly two patterns of ownership and management. The first pattern was joint ownership-joint management between the Liem family and other local businessmen or business groups (see company 1–12 in the table). Examples that can be classified under this pattern were: (a) joint ventures formed with leading groups/businessmen of each industry, i.e., insurance (with the Gesuri Group), construction and real estate (with the Jaya Group), banking (with Mochtar Riady); (b) Salim Group capital participation in existing companies, i.e., automobile assembly and parts (with Soebronto Laras/Atang Latief), cooking oils/oleochemicals/oil-palm plantations (with the Sinar Mas Group), instant noodles (with Djajadi Djaja). Common in this pattern was that the Salim Group was a late-comer and behind in the development of the above business in the domestic market, and each of Liem's partners had longer experience and more expertise in the particular industry than did the Salim Group. It appears that Liem sought the technical expertise of these partners in their given fields rather than their financial support.

Looking at Liem's relationship with his business partners regarding ownership and management, as shown in Table VII, one can see that in ownership the capital-subscription ratio coming from these partners ranged from 5 per cent to 58 per cent, a very broad spread, and no set rule is apparent. In management, however, one can discern to some degree a proclivity for the partner in the concerned business to sit on the board of directors (*dewan direksi* [marked by a ● or a ○ in the table]) while Liem (or Liem family members) sat on the supervisory board (*dewan komisaris* [marked by a ■ or a □]). The supervisory board system is set down in Indonesian company law, and the main responsibility of this board is to oversee the board of directors. In the case of the joint management being discussed here, it seems that Liem entrusted the daily operations to his partners who were the experts in the businesses concerned while Liem himself maintained a loose supervisory and consent role vis-à-vis these partners.

The second ownership-management pattern was joint ownership and joint management by the so-called Liem Investors (Table VII, company 13–21). This was a group of investors numbering at most seven which centered on a core of four people known as the *empat serangkai* meaning "quartet," one of whom was Liem himself. This pattern of ownership-management had first been formulated in 1968 at the time P.T. Waringin was incorporated as a limited liability company [5, 1969, No. 189]. Thereafter it appeared in the flour milling, cement, office-building, and cold-rolled steel businesses as well as in overseas operations under the First Pacific Group. In contrast with the first pattern, this second pattern was used in business fields where the Salim Group pioneered the way in domestic production, or where it was the first private business concern to enter the field of industry.

The four core members of the Liem Investors were Liem, Djuhar Sutanto (a first-generation overseas Chinese named Liem Oen Kian), and two *pribumi* (indiginous Indonesian), Sudwikatmono and Ibrahim Risjad (see Table VIII). Djuhar Sutanto, like Liem, came from Fujian province, Fuqing (Futsing) county and emigrated to Kudus in central Java. Coming from the same home region and having the same family name, and likewise belonging to the Futsing Association (Futsing Hui) since they were in Kudus, Djuhar Sutanto became Liem's trusted friend, and over the years they shared each other's successes and difficulties.[7] Sudwikatmono's mother is President Soeharto's aunt, the president father's younger sister. When still a child, Soeharto's parents divorced, and for a time this aunt looked after him. Through this connection Sudwikatmono could act as an agent for Soeharto's power and authority, and his role could be that of the Salim Group's liaison and negotiator with the government. Ibrahim Risjad in the late 1950s worked together with Liem's younger brother and Djuhar Sutanto in distribution and trade. He spoke of himself as being highly regarded for his experience in export, and he took part in P.T. Waringin [4, p. 23]. The remaining three people who completed the membership of the Liem Investors were Liem's third son (Anthony Salim) and Djuhar Sutanto's eldest son and a younger cousin (Tedy Djuhar and Henry Pribadi respectively). All three were born in Central Java and thus were second-generation overseas Chinese. As a group the Liem Investors brought together the Chinese and *pribumi*. The former bound together the two regions of Futsing and Central Java while the cooperation of the latter was needed to further the Salim Group's business ventures.

From Table VII it can be seen that the form of ownership and management by the Liem Investors was relatively fixed and for the most part had the following four features: (a) the ratio of shares held by Liem and Djuhar Sutanto was high while that of the other members uniformly low; (b) the two *pribumi* were the most important members on the board of directors, particularly Sudwikatmono who was frequently the President Director as the head of the board; (c) Liem's third son and Djuhar Sutanto assisted the two *pribumi* on the board of directors; and (d) Liem was frequently the President Komisaris as the head of the supervisory board working with two of the younger members (Djuhar Sutanto's eldest son and the younger cousin). What one sees emerging from the above features

[7] After the coup attempt of September 30, 1965, associations for overseas Indonesian Chinese were banned. Because of this, Liem and Djuhar Sutanto moved their Chinese association activities to the Singapore Futsing Association where both were made lifetime honorary chairmen [15]. Some sources say that Liem is a Hakka Chinese and has been active in Hakka organizations, but this author has not been abel to find any conclusive proof that Liem is a Hakka.

TABLE

STRUCTURE OF THE SALIM GROUP'S

	Company Name	Type of Business	Year	Liem	Liem Family[a]
1.	PT Asuransi Central Asia	Non–life insurance	1958 (A)	■37.0	17.8
2.	PT Mega	Clove import	1968 (N)	■27.5	□72.5
3.	PT Tarumatex	Textile	1968 (A)	■36.0	●64.0
4.	PT Metropolitan Kencana	Real estate	1972 (N)	■50.0	
5.	PT Asuransi Jiwa Central Asia	Life insurance	1974 (N)	■37.3	□16.0
6.	PT Bank Central Asia	Banking	1957 (A)	■ 5.0	○18.5
7.	PT Kayu Lapis Asli Murni	Plywood	1980 (N)	□ 7.2	●30.4
8.	PT Bukit Cinere Indah	Housing development	1980 (N)		20.0
9.	PT Indo Mobil Utama	Automobiles	1981 (CP)		
10.	PT Sinar Mas Inti Perkasa	Investment company for cooking oil	1983 (N)	□ n.a.	
11.	PT Indofood Interna Corp.	Snack foods	1984 (N)		
12.	PT Sanmaru Foods Manufacturer Co., Ltd.[d]	Instant noodle	1985 (CP)		
13.	PT Waringin	Primary products export	1968 (N)		40.0
14.	PT Bogasari Flour Mills	Flour milling	1969 (N)	■12.4	□33.6
15.	PT Perkasa Indonesia Cement Enterprise	Cement	1973 (N)	■35.0	□ 5.0
16.	PT Pipa Perkasa Indah	Concrete pipe	1976 (N)	■35.0	□ 5.0
17.	PT Perkasa Abadi Mulia	Cement	1980 (N)	■40.0	
18.	PT Agung Utama Permai	Investment company for office building	1980 (N)	■40.0	
19.	PT Sarimi Asli Jaya	Instant noodle	1981 (N)	22.5	
20.	PT Branta Mulia	Tyre cord	1981 (N)		
21.	PT Fatex Tori	Flour sacks	1981 (N)	18.0	

Sources: From the articles of incorporation for each company contained in *TBN*.

Notes: 1. (A): Year of acquisition, (N): Year of newly set up company, (CP): Year

2. ■: President Komisaris as the head of supervisory board, □: Komisaris as

○: Director as board-of-directors member.

a Excluding Liem and Anthony Salim.

b Group name in parentheses.

c Sub-group within the Jaya Group.

d Positions other than the head of board-of-directors are not known.

VII
OWNERSHIP AND MANAGEMENT, 1985

(% of stockholdings)

Members of Liem Investors						Business Partner[b]	
Djuhar Sutanto	Sudwi-katmono	Ibrahim Risjad	Anthony Salim	Tedy Djuhar	Henry Pribadi		
			● 9.0			□ 4.5	Adil Nurimba (Gesuri)
○							
						●50.0	Ciputra (Jaya)
			8.1			□10.1	Adil Nurimba (Gesuri)
			0.5			●17.5	Mochtar Riady
			○ 2.5			■25.0	Sigit Harjojudanto
	■ 2.5	○ 2.5		10.0	2.5	●50.0	Ismail Sofjan (Metropolitan[c])
			■ n.a.			●n.a.	Subronto Laras
	● n.a.		○ n.a.			■45.0	Eka Tjipta Widjaja (Sinar Mas)
						□10.0	Sigit Harjojudanto
	4.3	4.3	■17.0	□17.0		●57.5	Djajadi Djaja (Indomie)
17.0	4.3	4.3	17.0			●57.5	Djajadi Djaja (Indomie)
	● 5.0	○ 5.0		20.0	■ 5.0		
○16.7	● 4.0	○ 4.0		□ 7.7			
□35.0	● 5.0	○ 5.0	○ 5.0	5.0	□ 5.0		
○35.0	● 5.0	○ 5.0	○ 5.0	□ 5.0	□ 5.0		
○35.0	● 5.0	○ 5.0	○ 5.0	□ 5.0	□ 5.0		
○35.0	● 5.0	○ 5.0	○ 5.0	□ 5.0	□ 5.0		
22.5	● 3.5	■ 3.5	○ 5.0	□ 5.0			
		●55.0			■35.0		
18.0	□ 2.0	● 2.0				□20.0	Siti Hartinah Soeharto (Hanurata)

of capital participation in the company.
supervisory board member, ●: President Director as the head of board-of-directors,

TABLE VIII

THE MEMBERS OF LIEM INVESTORS

Indonesian Name	Chinese Name/*Pribumi*	Birth Year	Birth Place	Notes
Four core members of the Liem Investors (*empat serangkai*):				
Soedono Salim	Liem Sioe Liong	1916	Fujian province, Euqing county (Central Java, Kudus)	Leader of the Salim Group.
Djuhar Sutanto	Liem Oen Kian	1927	Fujian province, Euqing county (Central Java, Kudus)	The same hometown and family name as Liem; a member of Futsing Association.
Sudwikatmono	*Pribumi*	1934	Central Java, Wonogiri	Younger cousin of the President Soeharto
Ibrahim Risjad	*Pribumi*	1934	Aceh, Sigli	Coming to Jakarta in 1956 getting acquainted with Liem in 1958.
Three junior members of the Liem Investors:				
Anthony Salim	Liem Fung Seng	1949	Central Java, Kudus	The third son of Liem
Tedy Djuhar	Liem Heng Tjioe	1951	Central Java, Pekalongan	The first son of Djuhar Sutanto
Henry Pribadi	Liem Oen Hauw	1948	Central Java, Kudus	Younger cousin of Djuhar Sutanto

Sources: From various sources.
Notes: In parentheses, the place of immigration.

was a role sharing where the two *pribumi* headed the management of each company and handled the day-to-day operations, while Liem himself stood back and watched over the Salim Group business in their entirety. In this pattern of the Liem Investors, the two *pribumi* were Liem's very necessary business partners. He did not expected financial assistance or technical expertise from them. Rather as a first-generation overseas Chinese, Liem wanted their "*pribumi* faces" at the head of his companies to facilitate their entry into pioneering or privileged businesses, and he wanted Sudwikatmono who could represent Soeharto's power and authority.

The two patterns of ownership-management discussed above were characterized by flexible joint ownership and joint management of multiple business partners bound together by common business interests. In both patterns the board of directors in each company was entrusted to the partner who was responsible for the performance of the business, while Liem held onto overall business affairs through his position as the head of the supervisory board of each company. There was no holding company with centralized ownership of, nor a management system with centralized control over all the businesses in the group.[8] This made the Salim Group's ownership-management structure as it stood in 1985 quite different from the exclusive family control that was typically seen in Japan's zaibatsu and is common in Korea's *chaebol*.

The Salim Group's reliance on joint ownership-joint management arose in response to the rapid conglomerate diversification carried out by the group by the mid-1980s. As the group moved quickly into a succession of different industries and sought to dominate the markets in these industries, joining with an appropriate business partner was far more efficient than relying solely on family and kindred members. Where there was a businessman with accumulated experience in a given industry, Liem entered into a partnership to utilize his expertise and know-how; and where the group was opening up a new business field, Liem employed partners with *pribumi* faces to smooth the way for his advance. These sorts of flexible partnerships became a powerful weapon opening the way for the Salim Group to move rapidly ahead with diversification and the pursuit of market control.

B. *Centralization of Ownership-Management*

The joint ownership and joint management that sustained the Salim Group's high degree of diversification until the mid-1980s began to change during the latter half of that decade. This change was brought about by the following two movements.

The first was that members of the Liem Investors began forming their own business groups. Sudwikatmono set up the Subentra Group, Henry Pribadi the Napan Group, and Ibrahim Risjad the Risjadson Group. Such moves picked up speed during Indonesia's export-led boom after 1987, as each person increasingly

[8] In some sources there is mention of P.T. Salim Economic Development Corporation (set up in 1970) as a holding-management company for the entire Salim Group. But based on the *TBN*, this author's research has confirmed that this company in fact had no shareholdings in other companies, and although regarded as a management company, it did not have the organization seen in the "new management system" which is discussed later in this study. Thus it is apparent that this company functioned in name only.

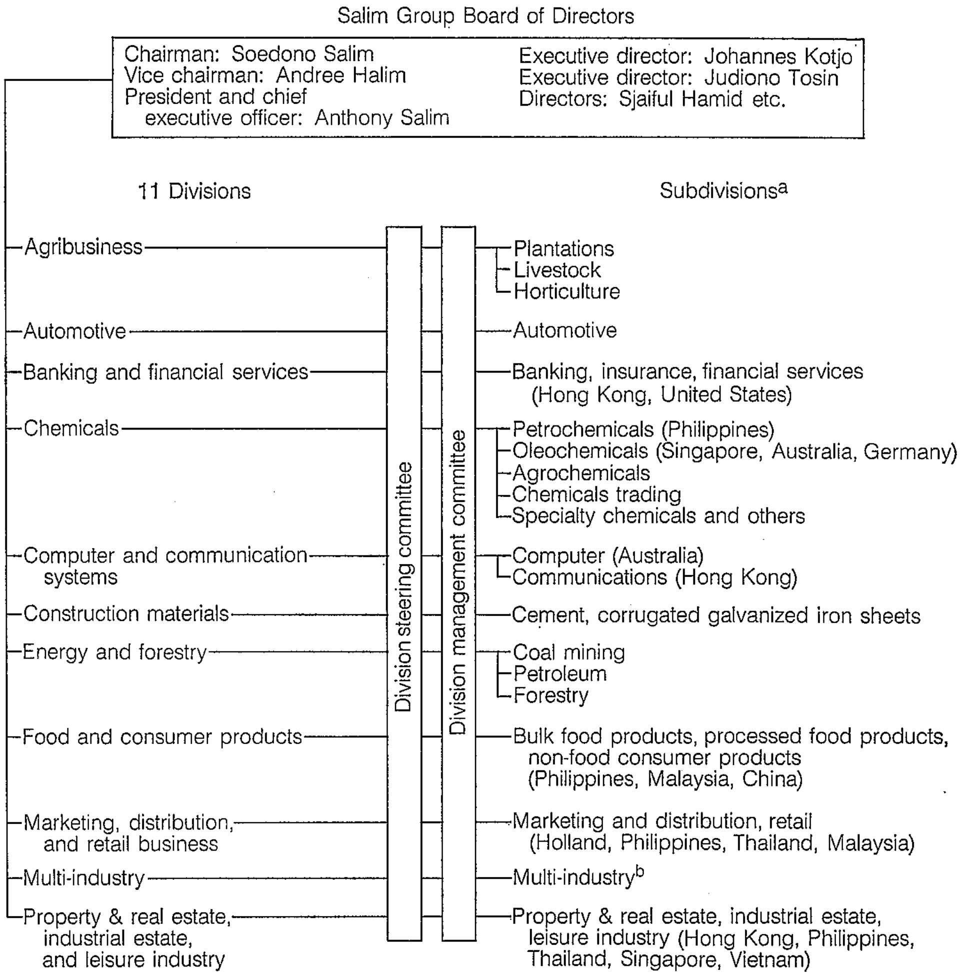
turned to manage the operations of his own group. Liem approved of this development saying, "Our [Liem Investors'] shareholdings has become too large.... Each of us has now decided to go our own way." [6, p. 77]. The same kind of change appeared in the joint ownership-management with other businessmen and business groups. At the end of 1990 Mochtar Riady resigned from the board of directors of BCA, reduced his shareholdings, and turned his full attention to running his own Lippo Group. Then during 1991 the Salim Group divided up the numerous joint ventures it had with the Sinar Mas Group in agribusiness and cooking oils.

The second movement was the inauguration of a new management system for centralizing control over the entire Salim Group [13] [12] [6, p. 68, pp. 74–75]. The structure of the Salim Group's new management system is largely as presented in Figure 2. Under this system the group newly set up a Salim Group Board of Directors which gained control over all of the group's businesses inside and outside of Indonesia. The board members are: Soedono Salim (Liem), chairman of the Salim Group; Andree Halim, vice-chairman of the Salim Group (Liem's second son whose Chinese name is Liem Sien Tjiong); Anthony Salim, president and chief executive officer of the Salim Group (Liem's third son whose Chinese name is Liem Fung Seng); plus a number of other non-family directors. Under this board of directors come eleven divisions; each of these divisions has a "division steering committee" to determine basic policy and a "division management committee" to supervise day-to-day operations. A division is composed of a number of "subdivisions" under which come the individual companies which are the production units. Thus the new management system has for the first time organized the Salim Group into a pyramid-shaped decision-making hierarchy with the Salim Group Board of Directors, composed of Liem, his sons and professional managers, at the apex and the more than 400 group-affiliated companies at the bottom.

To sum up the above, the joint ownership-joint management business partners who previously played such an important role are spinning off from the Salim Group by centrifugal force while at the same time the new management system is beginning to exert centripetal force within the Salim Group. With these two forces, the group's ownership-management structure is moving away from the previous patterns of flexible joint ownership-joint management and gradually converging into a centralized form of ownership-management under the Liem family.

There are a number of reasons behind this shift toward a centralized structure. One is that the Salim Group is preparing for a shift to the second generation, and it is now necessary to integrate the family-owned properties and set up a system of leadership carried on by the family in conjunction with skilled professional managers. In this study, however, a second reason is of greater interest, and this has been the Salim Group's promotion of across-border production chains. Previously the group had pursued separate domestic and overseas business strategies, but as these began to be vertically integrated, a unified management was needed. Figure 2 shows that the overseas businesses are not formed into one division, but are arranged horizontally into eleven divisions according to the field of business. To respond to the restructuring of the group's businesses, a total management

Fig. 2. The Salim Group's New Management System, 1991



Sources: [13] [12] [6].

[a] At the subdivision level, when the location of overseas affiliates is known, the name of the country is in parentheses.

[b] Labor-intensive, export-oriented industries, in particular: electronics, toys, shoes, gift items, textiles, leather products.

system controlling the domestic and overseas businesses in each of the sectors was also needed.

III. THE BEHAVIOR OF THE SALIM GROUP

A. *Pursuit of Market Domination*

A major principle of behavior running through the Salim Group is the "pursuit of market domination," which simply means trying to acquire greater market shares in more types of goods and service markets.

The Salim Group's propensity to pursue market domination has remained constant from the earliest days of the group's formation and regardless of economic conditions or field of business. Quite simply put, the group's attitude toward expansion has been: to entry into an industry and aim at becoming a monopolistic or oligopolistic producer in the domestic market of that industry, then without delay entering another industry and likewise in that industry aim at being a monopolistic or oligopolistic producer, then repeating this process in still other industries. Even when compared with Astra (in automobile assembly and components) or with Mantrust (in food processing) both which pursued diversification highly related with their core industries, or when compared with Sinar Mas (in cooking oils), or with Gudang Garam and Djarum (both in clove cigarettes), all of whom diversified after specializing for a long time in their core industries, the behavior of the Salim Group stands out conspicuously.

At least two conditions in the Indonesian economy allowed the Salim Group to pursue market domination. One was the country's "full-set" industrialization strategy—the parallel fostering of full-set domestic industries, from consumer-goods and basic-material industries to the capital-goods industry, and endeavoring to build not only downstream but also midstream and upstream processes in each industry [8]. Under this strategy from the late 1960s Indonesia pushed the rapid development of a broad spectrum of domestic industries. The growth rate of the domestic market in each industry was high, but the market size was limited. Also during the early years of this strategy the market was protected from imports. Under such conditions, it was comparatively easy to dominate the domestic market by entering ahead of others with an appropriate volume of production, and enough business opportunities were available that it was possible to achieve domination in different product markets at the same time. For a business entity trying to sustain high growth, "pursuit of market domination" is seen as a most efficient business behavior.

The second condition in Indonesia's economic policy that affected the group's behavior was government licensed business. During the early stages of the Salim Group's development, the government guaranteed the group a set volume of production for its textiles and flour milling, and guaranteed a set volume of trade for the group's primary product exports and for its clove imports, though these guarantees were for a limited period of time for textiles and primary-product exports. Experiencing at the start the lucrative profits that came with quantitative domination of the market through government licensed business, the Salim Group carried this attitude over into other industries, and pursuing monopolistic and oliogopolistic market positions became a cornerstone of the group's corporate behavior.

For the most part there are three means by which the Salim Group pursues market domination.

1. *Monopolies in newly established industries*

The Salim Group's first means for dominating a market, and which has been used in numerous industries since the group's formation, is monopolizing a newly established industry. This means being the first to domestically produce a product for the first time; and if one has sufficient capacity to satisfy existing domestic demand, then one will automatically achieve a monopoly in the domestic market for the given product. Since the government often provides licences to only a limited number of pioneer producers, an entrant into a newly established industry tends to be a government licensed business. Here the advantage of Liem's proximity to the government has been more than amply demonstrated. The Salim Group became the first, and moreover the only domestic manufacturer producing tire cord, cold-rolled steel, and alkyl-benzene, and carrying on the secondary processing of fatty alcohol from palm oil; and it became one of only two producers of flour. Now with the development of the Riau archipelago centering on the Batam island, the Salim Group has reached the foremost rank it now holds in the region. Among all of these undertakings, the flour milling business, the earliest of the group's government licensed businesses, still symbolized even today the closeness of the Salim Group to the center of political power in Indonesia.

Flour milling falls under the authority of the National Logistics Board (Badan Urusan Logistik Nasional, BULOG), and the charge for milling wheat flour and its price on the domestic market are set by the government. For this reason the Salim Group claims that P.T. Bogasari, the group's milling business, even though having a monopoly over the market, cannot gain monopolistic profits from the business [4, p. 24]. However, the articles of incorporation at the time of P.T. Bogasari's establishment stipulated that 26 per cent of the business's profits were to be distributed to two foundations, the Yayasan Harapan Kita presided over by Tien Soeharto, the president's wife, and the Yayasan Dharma Putra belonging to the Army Strategic Reserves Command (Komando Cadangan Strategis Angkatan Darat, KOSTRAD) [5, 1970, No. 258].[9] If the government power-holders with authority to set prices have a direct interest in the distribution of P.T. Bogasari profits, then it is possible that the prices have been set to profit P.T. Bogasari. According to a recent survey, the milling charge per ton of wheat flour paid to P.T. Bogasari is about U.S.$116, far exceeding the world average which is U.S.$40 per ton [14, p. 52].

[9] In 1977 this stipulation was changed, and now 20 per cent is distributed for "charitable purposes."

2. *Market domination through horizontal integration*

The Salim Group's second means for dominating the market has been horizontal integration—integrating into a business group a number of companies in the same industry through mergers, acquisitions, and the establishment of new companies. One such example was the group's cement business which set up a series of seven new companies. In the instant noodle and cooking-oil businesses where the Salim Group was a late entrant, the group's capital participation in Indomie Group and its new joint ventures with Sinar Mas Group in respective industries enabled the Salim Group to start its expansion through horizontal integration even to the point where it pushed ahead of the above two front-runners.

Yet another good example is the automobile industry. The Salim Group's full-scale entry into the automobile business began in 1980 when it acquired the sole-agent rights in Indonesia for Mazda (passenger cars), Hino (trucks and buses), and Land Rover (commercial vehicles). It acquired these rights from Hasyim Ning, Indonesia's auto business pioneer since the 1950s, who was experiencing financial decline. This acquisition was followed in 1981 by the group's capital participation in the sole agent-cum-assembly company for Suzuki motorcycles and four-wheeled vehicles (commercial vehicles and passenger cars). Then in 1986 the sole agent for Nissan (passenger cars) was also brought into the group [12]. The major front-runners in the automobile business at the time of the Salim Group's entry were the Astra Group (sole agent for Toyota, Daihatsu, Honda motorcycles, etc.), the Krama Yudha Group (sole agent for Mitsubishi), and the Imora Group (sole agent for Honda passenger cars). All had tie-ups with Japanese auto makers and carried on automobile assembling and parts manufacturing. Compared with these groups, the Salim Group before its series of acquisitions was only the sole agent-cum-assembler for Volvo passenger cars with a very limited number of production units and had no undertakings in assembling and parts manufacturing of commercial vehicles. However by 1985–86, the Salim Group had brought under its control the broad lineup of automobile types and makes mentioned above which pushed it into the front ranks of the automobile business rivaling the Astra Group, the largest in the business.

Important to note here is that in the process of pursuing market domination, the Salim Group demonstrated its advantage as a conglomerate. In 1985 the Salim Group took a new step which was important in expanding its auto sales; this was the introduction for the first time in Indonesia of the genuine installment selling of automobiles. Installment sales were handled by P.T. Sari Metropolitan Leasing, a joint venture set up by BCA in partnership with Japan Leasing Corporation and the Long-Term Credit Bank of Japan. For lending and collecting of rupiah finances required of installment sales, the BCA's financial strength and its nationwide network of branch offices were fully utilized.[10] The competitors who did not have financial business within the groups left behind in this automobile installment selling. The successive acquisitions and support of the group's financial

[10] Based on interviews by the author at P.T. Suzuki Indonesia Manufacturing done on October 28, 1986, and interviews on January 28, 1992 of people who had worked in Indonesia with P.T. Central Sari Metropolitan Leasing.

companies produced dramatic results in the Salim Group's sales share in the automobile market; it rose sharply from less than 5 per cent in 1980 to 29 per cent by 1986.

3. *Market domination through vertical integration*

The Salim Group's third means of dominating the market has been vertical integration. Examples of this are the oleochemical and agribusiness industries where it would seem the group's intention has been to achieve perfect integration, i.e., control from the raw-materials production stage all the way up to the stage of distribution and sales.

The Salim Group's principal motive for carrying out vertical integration in these industries has been to avoid the risks that accompany the procurement of raw materials and the distribution of products by internalizing these stages, to stabilize the production process of products, and then to acquire greater power to achieve market domination than other companies. The following example will clarify these points.

In 1983 the Salim Group began to carry out capital participation in existing companies in cooking-oil refining while at the same time it moved into oil-palm plantations through both new development and acquisition. Until that time existing cooking-oil refining companies had procured raw-material oil from state-owned plantations through the Joint Marketing Office (Kantor Pemasaran Bersama, KPB) under the government. The government set the KPB's buying price of crude palm oil from plantations as well as the quantity that the KPB supplied to the domestic market in order to maintain a stable supply of domestic cooking oil. As a result, the price and quantity of raw materials for each of the refining companies were totally controlled by the government. In this situation, the Salim Group moved into procuring the crude palm oil from its own plantations in order to lower the raw material cost and to ensure a sufficient quantity and to directly control quality.

The state-owned plantations have held an oligopolistic position in Indonesia's oil-palm plantations. While they simply extract the crude palm oil form the fresh fruit, the newly entered Salim Group is striving to build up midstream and downstream processing stages as demand industries within the group which can support a stable large-scale plantation operation. The demand industries have not been limited to cooking oils and fats production. The Salim Group has become one of the first in Indonesia to venture into the production of industrial oils and fats from palm oil, and having moved into this field early, the group has enjoyed a lucrative oligopolistic status in this newly established industry.

B. *Politically Affiliated Power and Conglomerate Power*

As the three means used by the Salim Group to gain market domination, monopolies in newly established industries, horizontal integration, and vertical integration manifested themselves in the group's behavior in accordance with the group's development stages.

(1) When pursuing market domination in a targeted industry, the Salim Group always marshalled the full power of the group. During the early stage of its group formation, the greatest power at the group's disposal had been its proximity to

center of political power. This was "politically affiliated power," and it was very clearly utilized to gain monopolies in newly established industries.

(2) Once the conglomerate framework encompassing numerous affiliated industries had begun to form, the group was able to marshal its own "conglomerate power" when targeting new markets. Important in this conglomerate power has been, among others, (a) the mutual cooperation among the different industries within the group (e.g., the contribution of the cement-distribution network in expanding the BCA's clientele, the support of the BCA and leasing company to automobile installment selling, the tie-in sales between foods and two-wheeled/four-wheeled vehicles), and (b) the vast financial strength of the entire Salim Group derived from profits of the highly diversified and risk-dispersed affiliated businesses, and from the group's ability to procure domestic and overseas capital. Whenever the Salim Group has achieved domination over a market through horizontal integration, particularly when it has been a late-comer to the targeted industry, it has been able to exhibit this "conglomerate power" to the fullest.

(3) In recent year the Salim Group's most noteworthy moves have been in vertical integration where its "politically affiliated power" and its "conglomerate power" have worked in combination. When the group is a late entrant into a production process that is already to some degree developed in the country (usually end [downstream] processing and raw material production [upstream processing]), it seeks to catch up by utilizing its conglomerate power to incorporate into itself leading companies in the targeted industry. When the group is the first to enter a still undeveloped process in the domestic market (usually intermediate [midstream] processing), it exhibits its politically affiliated power to get preferential government licensing to invest in the targeted industry.

CONCLUSION

In summation, the main points which can be concluded from this study are:

(1) Up until mid-1980s the Salim Group's business development was characterized by conglomerate diversification. Its ownership and management structure was characterized by joint ownership and joint management with different business partners in each of the business fields it entered. The group's behavior was based on the principle of pursuing domestic market domination through the acquisition of an increasingly larger share of the market in an increasingly greater number of products. Conglomerate diversification was a result of the group giving priority to entering industries where it was possible to pursue market domination. The organizational structure which most efficiently achieved market domination was joint ownership and joint management with business partners.

(2) In recent years the Salim Group has introduced into some of its affiliated businesses vertically integrated production chains which reach out overseas. It has also organized a new centralized management system which controls the group's overall domestic and overseas businesses along business-sector lines. The result is redirecting the group's foreign and domestic operations, which had been developing in many unrelated industries without any interlinkage, toward becoming multinational businesses which are making Indonesia the largest center for raw-

materials production and processing with across-border production links to the vast expanses of Asia. Running through this new corporate behavior is the Salim Group's fundamental principle: the pursuit of market domination. However, this pursuit has now been expanded into the broader Asian regional markets by means of vertical integration of industries within the group.

(3) The "pursuit of market domination" seen consistently throughout the development of the Salim Group can be understood as the manifestation of the group's own power: "politically affiliated power" and "conglomerate power." These two hallmarks of Salim Group have been possible because of Soeharto's rise to power and because of the "full-set" industrialization strategy that has been promoted by the Soeharto's government. In this sense the Salim Group is a symbolic economic actor of Indonesia during the Soeharto era.

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