

## The Divestment of PT Semen Gresik (Persero) Tbk.: Evidence and Implications

Gugus Irianto

Faculty of Economics and Business, University of Brawijaya Malang, Indonesia

**Abstract:** *The privatisation of PT Semen Gresik (Persero) Tbk., a state-owned enterprise which operates in the cement industry, had gradually been done. The divestment raised a variety of issues beyond efficiency and financial performance of the company, such as the hegemonic nature of MNCs, justice and fairness, job security, as well as the economic sovereignty. These, in turn, lead to the necessity of developing theoretical perspective which incorporates a variety of aspects in the privatisation enquiry.*

**Keywords:** *privatisation, state-owned enterprises, Semen Gresik, a new perspective to study privatisation.*

Divestment is well known as one among various methods of privatisation of SOEs. It commonly is part of broader reforms policy. For example, policy of privatisation of SOEs in Indonesia is an element of SOEs reforms (*Masterplan Reformasi BUMN*, 1998). Such a reform is part of the Macro Economic and Financial Policies (MEFP) of the Government of Indonesia, known as Letter of Intent, submitted to the IMF as a prerequisite for a financial loan from the agency (see for instance *Indonesia Letter of Intent*, attachment III.3.b, October 31, 1997, <http://www.imf.org/external/np/loi/103197.HTM>). The central issue of privatisation is about efficiency or performance of state-owned enterprises (eg. Nellis and Kikeri, 1989; Millward and Parker, 1983; Aharoni, 1986; Millward, 1988; Megginson and Netter, 2001). Empirical evidence about efficiency or performance of SOEs is essentially mixed (Nellis and Kikeri, 1989, pp. 660-662). There are studies that reveal private companies outperform the state-owned enterprises (eg. Boardman and Vining, 1989; Kikeri et al., 1994; Galal et al., 1994; Abeng, 1998; Megginson and Netter, 2001; Cabanda and Ariff, 2002), others disclose that "there is no systematic evidence that public

enterprises are less cost effective than private firms"

(eg. Millward and Parker, 1983; cf. Aharoni, 1986; Millward, 1988), and even many SOEs have a world class credential (Heracleous, 1999; Jackson and Price, 1994). This mixed evidence leads to the belief that efficiency or performance may have been influenced by a variety of factors other than ownership, such as competition, enterprises' goals, political interference or organisational cultures. (Aharoni, 1986; Garner, 1988; Vernon-Wortzel and Wortzel, 1989; Jomo, 1993).

In Indonesia, concerns about SOEs' performance have also been apparent (eg. Presidential Instruction No. 5/1988; Ministry of Finance decision No. 740/KMK/1989 and No. 826/KMK.013/1992; Yasin, 2002a; Abeng, 1998, 2001; *Masterplan Reformasi BUMN*, 1998; *Masterplan BUMN 2002-2006*; Irianto, 2003, 2004). These can be seen from periodic reforms that have been carried out to improve the performances of SOEs. For example, at the end of 1980s, privatisation and related policies had been exercised in response to findings that more than 50 per cent of the 189 SOEs were underperforming (Abeng, 2001, p. 28). The recent privatisation policy was also justified on this sort of reasoning (Abeng, 2001, pp. 30-31), although evidence of SOEs' performance is mixed. In fact, SOEs that have been privatised, such as Semen Gresik, Indosat, and Telkom are profitable enterprises.

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### Alamat Korespondensi:

Gugus Irianto, Faculty of Economics and Business, University of Brawijaya Malang



PT Semen Gresik (Persero) Tbk. (SG) is profitable company that has been privatised (see detail in Irianto, 2006). SG has a general story of success, although it has faced the burden of debt. In the private sector, such a case could drive a company into the risk of bankruptcy or a hostile take over as has been the experiences of Indocement and Semen Cibinong (Irianto, 2004). Although such a debt-laden company increases the possibility for privatisation, justification of SG's gradual divestments are not based on this fundamental problem. The first and second partial divestments were completed on the basis of comparable motives, while the third divestment was carried out on the basis of different justifications. The first divestment of SG in 1991 was considerably successful, but the other two transactions, primarily the latest divestment sparked heavy opposition from the general public, locally and nationally, and raised a variety of controversies.

## METHODS

This study is intended to explore the privatisation of SG, and its implications for future research. Data of this study had been gathered from various sources with various approaches such as documentations, observations, and interviews to stakeholders to understand both nomena and phenomena of the privatisation process of SG. The concept of crystalisation rather than triangulation has been utilised in the data collection process as well as in the process of data interpretation. Miles and Huberman (1984) model has been utilised in the data analysis of the study (see detail in Irianto, 2006).

## RESULTS AND DISCUSSIONS

There are a variety of fundamental findings of this study, however, only a few can be presented in

this paper due to various considerations. Findings that will be presented in the following sections include the environments surrounding the divestment, transparency of the divestment process, the outcome both financial and non financial, privilege for multinationals, and country sovereignty.

The divestment was intended, among others, to build a strategic alliance that could improve exports and preserve competitiveness (*Master Plan Reformasi BUMN*, 1998, p. 38). Initially, the government planned to sell 35-40 per cent of its stake in Semen Gresik through strategic sales (private/direct placement). Due to the opposition from the general public, such as from employees of Semen Gresik, Semen Padang and Semen Tonasa, local governments (executive and legislative), NGOs, and national political figures (eg., *Kajian Dampak ...*, 2001, pp. 3-4; Abeng, 2001, pp. 105-109), the government had to modified the plan and sold only 14 per cent of its stake to Cemex, the winner of the bid (*Master Plan Reformasi BUMN*, 1998, pp. 38, 65).

Subsequent to the transaction with the government of Indonesia, Cemex also purchased SG's shares from the capital market and after these transactions were completed, Cemex controlled 25.53 per cent of SG's interest (SG, 2001, p. 25). The change of SG's ownership structure since the IPO until the end of November 1999 is depicted in the following Table 1.

Briefly speaking, since it went public in 1991 and further transactions in 1995 and 1998, SG has been transformed from a purely state-owned enterprise to a state-owned limited liability and public company, or *Persero Terbuka* (the term under UU BUMN [Law of SOEs] No. 19/2003), although the majority ownership still belongs to the government of Indonesia.

### The environment surrounding the divestment

In September 1998, the government of Indonesia launched a formal and comprehensive privatisation

Table 1. SG: Change in Ownership structure (%), 1991-1999

Shareholders	After the IPO '91	Sept 1995	04/11/98	11/06/99	30/11/99
Govt. of Indonesia	73.03	65.00	51.01	51.01	51.01
Cemex	-	-	14.00	20.00	25.53
Norbax Inc.	-	-	5.73	-	-
Public	26.97	35.00	29.26	28.99	23.46
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Sources: SG, 2001, p. 27; Landasan ..., 2002, pp. 3-4; SG [Annual Report], 2001, p. 3. Notes: IPO: 8 July, 1991; Rights issue: 2 June, 1995; 10 August, 1995.



program through the publication of the Masterplan of SOEs Reforms (*Master Plan Reformasi BUMN*). The general objectives of the reforms are

[t]o ensure continuous growth, efficiency, and profitability of SOEs toward economic recovery and achieving prosperity, as well as to improve the quality of service to consumers. (1998, p. 7) (my translation).

In more detail, the plan stated that such reforms are addressed to (1) improve the state's financial position through the improvement of SOEs' revenues and the elimination/reduction of subsidies or other fund transfers from the state to the SOEs; (2) to widen company ownership and strengthen the capital market; (3) to redistribute wealth; [and] (4) to privatise nearly all of the SOEs within a decade. (*Master Plan Reformasi BUMN*, 1998, p. 7). Under these reforms, SOEs will be forced towards achieving growth, efficiency and profit. The improvement of the SOEs' performance would be beneficial for the government because it would increase the contributions from SOEs in various ways (e.g., tax contribution and dividend) which in turn would relieve the budget burden. Besides such fundamental objectives, strengthening the capital market and the redistribution of wealth would also be achieved. In the case of Semen Gresik, the specific objective of the government is

[to] preserve the future competitiveness of the company and its subsidiaries in domestic as well as in foreign markets (*Master Plan Reformasi BUMN*, 1998, p. 38) (my translation).

Considering that the fundamental objective of SG's divestment is to gain more access to foreign markets, a strategic sales or direct/private placement approach has been selected (Ibid., p. 38; Abeng, 2001, p. 109). Consequently, the intended strategic partner of SG would be selected from potential investors that have international market networks.

Divestment of SG in 1998 was carried out in the middle of the 1997/1998 economic and financial crisis in Indonesia. The crisis has driven President Soeharto to resign, and mark a transformation from the New Order era to a Reform era. The reform era is characterised by the spirit of transparency, accountability, democratisation, decentralisation, and the adoption of the Universal Declaration of Human Rights. First,

the adoption of the Universal Declaration of Human Rights through the issuance of UU No. 39/1999 (*Undang-undang tentang Hak Asasi Manusia/ Human Rights Law*) lead to the recognition of freedom of expression and particularly freedom to form peaceful associations. This is a catalyst to the establishment of employee unions in many companies both in the private companies and in the SOEs. Employee unions became a powerful movement that had never been imagined during the New Order era. They are critical of the government policy on privatisation. Semen Gresik Employee Unions (*Serikat Pekerja Semen Gresik [SPSG]*) is an example of employee union that is decisive to such a policy. SPSG was officially established in 26 February 1999, and has 2,342 members from 26 units of SPSG Gresik and 22 units of SPSG Tuban. The objective of SPSG is

... to protect and to struggle for its members to have a freedom of uniting and improving the member's welfare. [and] ... to conduct activities that can improve member participation in the development of the company and the industry (*Apa, Mengapa...*, 2002, p. 1).

Semen Gresik's employees have struggled to oppose the 1998 divestment since they were not formally formed as SPSG at that time. Following the establishment of SPSG, this union strengthened and 'formalised' its aspirations even beyond the 'normative' objectives of an employee union. The main aspirations of SPSG are:

- to preserve the state majority stake (51%) in SG, [and]
- to cancel the Conditional Sales and Purchase Agreement between the government and Cemex including the put option.

(*Apa, Mengapa...* 2002, p. 2) (my translation)

SPSG has claimed that its struggle has been supported by many non governmental organisations (NGOs), legislative and executive bodies in the local government of Gresik and Tuban and those from East Java Province, as well as prominent political figures in the country such as the speaker of the People Consultative Assembly (e.g., *Apa, Mengapa...*, 2002, p. 6; Rais, 2002; Gapura No. 11/Th. III/25 March, 2002; No. 19/Th. III/20 May, 2002; result of my field



work's interview). Hence, SPSG has become one of the prominent stakeholders that has led the struggle to oppose the divestment of the majority government stake in SG to Cemex. *Second*, the spirit of decentralisation was adopted by the enactment of UU No. 22/1999 (*Undang-undang tentang Otonomi Daerah*), the decentralisation/regional autonomy law. A fundamental aspect of this law is reflected in the article 10 verse 1 which states that "the local [government] has the right to manage national resources which are located in its region ...". In addition the government also issued UU No. 25/1999 (*Undang-undang tentang Perimbangan Keuangan antara Pemerintah Pusat dan Daerah*/ Law on balance of finances between the Central government and the Regions) which gives local government a certain allocation of proceeds generated from resources (e.g., oil, timber, etc.) which are extracted/harvested from its region. These regulations have strengthened the power of local government in dealing with the central government. In the case of privatisation of Semen Gresik, the local governments of Gresik and Tuban have almost similar concerns<sup>1</sup>. They are concerned with two aspects which are about the uncertainty of the price of the product and the continuous support from SG to the local government of Gresik whenever the company is sold to foreign investors. The price of cement has influenced to the cost of development. According to the bureau of research in the Ministry of Industry and Trade, one dollar increase in the price per sack of cement will increase the cost of infrastructure development up to US\$480 million per annum (Perajaka, 2002, p. 5). SPSG and the local governments of Gresik and Tuban believe that the majority of shareholders of SG would be better off under the government.

### Transparency of tendering process

Abeng (2001) believes that there were open and transparent bidding processes in the selection of investors for Semen Gresik; however, indications of insider trading (*Republika*, 23-24 June, 1998), lack of transparency and conflict of interest (Lubis et al., 2001, p. 30) were apparent since the early process of tendering. The head of BAPEPAM at that time, I

Putu Gde Ary Suta, even points out that "[t]here are indications [of insider trading] and this insider trading is the biggest case so far" (*Republika*, 23 June, 1998). The nuance of 'insider trading' may be seen from the due diligence process and time limit which were carried out by three bidders, Heidelberger, Holderbank, and Cemex, however, those would not be easy to substantiate.

Two other 'irregularities' that relate to the process of divestment also took place. *First*, throughout this process, Cemex changed its special purpose vehicle (SPV) a few times, as Lubis et al. reveal

[a]t the beginning of the tendering process the name of Palacefield Investment NV was used [by Cemex], then it was replaced by Cemex Asian Investment NV (CAI). ... This was repeated by substituting CAI with Cemex Manila Investments, and [then] it was changed again to Cemex Asia Holding within four days only! It looks like a chameleon. (2001, p. 31) (my translation)

It is not uncommon to use a special purpose vehicle in the case of acquisition in Indonesia (cf., *Tempo*, 24 November, 2002, pp. 27, 110-12, in the case of BCA), but for Lubis et al. the many changes of SPV in a short period of time were suspicious, although they did not further explain their suspicion. *Second*, conflict of interest in the transaction process was apparent. At that time, Goldman Sachs was one of the financial advisors to the government of Indonesia in the valuation process of SG, but at the same time Goldman Sachs was also the financial advisor of Cemex (*Republika*, 23-24 June, 1998; Lubis et al., 2001, p. 30). Last but not least, this divestment transaction was seen to have a lack of transparency. For example, there was a clause (article 14.2) within the CSPA that stated that the document could not be published even by the government, and this meant that the agreement broke the transparency principle of privatisation mandated under Keppres No. 103/1998 (Lubis et al., 2001, pp. 30-31). In brief, it can be noted that even though Cemex won the selection based on the highest offer price, it remains questionable whether there was a transparent, fair and a just transaction.

<sup>1</sup> The detail interview and discussion with informants can be read in Irianto (2006).



## The "results" of divestment

A brief summary of the financial proceeds and expenses of SG divestment in 1998 is presented in Table 2.

Net proceeds of SG's divestment are equal to Rp1,317 billion (Ruru, 2003, p. 16). These proceeds are considerably insignificant in comparison to the budget deficit in the fiscal year of 1998/1999 which was estimated Rp15,000 billion (*Republika*, 25 September, 1998, p. 4). However, under pressure with the economic and financial crisis, the government of Indonesia had no better choice than to pursue such a policy which was concerned with short-term necessity. Abeng discloses the difficulties that faced the government as follows:

[b]etween March 1998 and April 1999, our main focus had been on quick fixes and early wins. With the economy collapsing and the budget in crisis, we had little choice but to focus on measures that would yield the highest short-term benefits. (2001, p. 122)

In addition, the government of Indonesia has also faced the imposed policies from the IMF as prerequisites for financial loans from the agency. The strong role of the IMF can best be viewed from Abeng's confession as follows (cf., Ramli, 2003a, 2003b):

... the IMF was able to put pressure on the government to introduce a wide range of market-based, economic policy reforms, including the elimination of several Soeharto family monopolies, reductions in tariffs and export taxes, bank closures, cuts [in] government spending, the introduction of a new bankruptcy law and commercial courts and the privatisation of several

stateowned enterprises (2001, p. 41).  
(emphasis added)

Thus, even though proceeds from SG and other SOEs' divestments may not have been significant in comparison to the government's need, the above factors (e.g., budget deficit and the IMF's imposed conditionalities) had given the government less opportunity to exercise other policies (cf., Cook, 1986).

Even though Abeng believed that "we got a good deal for the country" because the price "represented [a] 112 per cent premium on Semen Gresik's share market value" and the PER was higher than the divestment in 1991 (2001, p. 108), this divestment was criticised by SPSG. SPSG argued that based on a comparative assessment of the estimated value per tonne of capacity, the state would financially suffer (Table 3).

Based on this approach the state would financially lose about US\$ 193 million, although Cemex paid the highest price. Lubis et al. supported the SPSG's assessment (2001, pp. 33-34). They estimated that the government of Indonesia had already suffered nearly US\$ 248 million. This estimation was based on Catterson's (2001) lowest estimation of international standard's replacement cost for a cement manufacturing plant (Ibid., p. 34; *Landasan* ..., 2002, p. 5). Finally, the value per tonne capacity sold to Cemex (US\$47.45) was considered very low in comparison to those on the acquisition of Rizal Cement in the Philippines (US\$114.28), Southdown in USA (US\$244), both of them by Cemex, and the investment by Blue Circle in Kent (US\$178.64) (*Landasan* ..., 2002, p. 5; Lubis et al., 2001, p. 34; Baswir, 2004, p. 5).

Table 2. Divestment of SG in 1998: proceeds and expenses (US\$)

<b>Total gross proceeds</b>	<b>122,097,960.00</b>
Expenses:	
- Domestic and international financial advisors	916,783.68
- Domestic and international lawyers	613,025.29
- Crossing expenses in the capital markets	286,494.90
<b>Total Expenses</b>	<b>1,816,303.87</b>
<b>Total net proceeds</b>	<b>120,281,656.13</b>

(Source: *Laporan Privatisasi Kantor Menteri Negara Pendayagunaan BUMN* (cited in Abeng, 2003, p. 36) (recalculated))



**Table 3. Value per tonne capacity of the divestment of SG in 1998: a comparative outlook**

Installed production capacity of SGG (tonnes)	17,250,000
Total shares of SGG	593,152,000
Percentage sold to Cemex	14 %
Price per share (US\$)	1.38
Total sales received by the GoI (US\$)	114,596,966
<b>Value per tonne of capacity sold (US\$)</b>	<b>47.45</b>
<b>Cost to build a new manufacturing plant</b>	
Cost of a New Manufacturing Plant – the Case of Tuban I (Rp.)	644,851,000,000
Installed production capacity at Tuban I / year (tonnes)	2,300,000
<b>Cost of New Manufacturing Plant/tonne of capacity (US\$)</b>	<b>127.44</b>
(Exchange rate at 31 December, 1994: US\$1 = Rp. 2,200)	
<b>Loss from sales to Cemex / tonne of capacity (US\$)</b>	<b>79.99</b>

(Source: *Sekilas tentang PT Semen Gresik (Persero) Tbk.*, n.d. (a), p. 19.)

### Financial performance: before and after the divestment in 1998

The financial performances of SG in various aspects liquidity, profitability, activity, and solvability are generally better than that of its main competitors, Indocement and Semen Cibinong (Irianto, 2006, Chapter 5). In this section, the focus of analysis is on a comparative outlook before and after the 1998 strategic sale of SG. Extending Machfoedz's proxy on measurement of efficiency of the public enterprises in Indonesia (1998, 1999) with few other ratios, a summary of the comparative financial performances of SG is depicted in Table 4.

A few aspects can be noted from the table 4. First, the ROIs of this company in 1995 and 2001 were 4.85 per cent and 3.62% respectively. This was evidence that the company efficiency was not improving after the divestment in 1998 if it is compared with the similar time interval before the divestment, although there was a trend of ROI improvement in comparison to that in 1998. On the other hand, there was an upward trend of the company's ROE. Whilst SG's profit shows continual increases, so does the debt as reflected in DER and DTA. Thus increasing trend of ROEs should be seen as a result of the tendency of increasingly SG debt and reduction of the equity. Finally, SG's price earning ratio (PER)

**Table 4SG: Summary of the Comparative Financial Performances**

Ratios	1995	1998	2001
<b>Profitability Ratios:</b>			
Return on Investment	4.85	3.13	3.62
Return on Equity	7.03	8.59	10.04
Price Earnings Ratio	23.35	22.22	10.28
<b>Solvency/Debt</b>			
<b>Management Ratios:</b>			
Debt to Equity Ratio	0.45	1.75	1.77
Leverage Ratio	0.31	0.64	0.64
<b>Liquidity and assets management ratios:</b>			
Current Ratio	1.32	1.26	1.26
Inventory Turnover	2.67	2.14	3.72
Total Assets Turnover	0.24	0.33	0.53

(Sources of data: ECFIN, various years; SG [Annual reports], various years.)



declined from 23.35 per cent in 1995 to 10.28 per cent in 2001. Hence, in terms of profitability, SG's divestment in 1998 failed to achieve improvement. The second aspect derived from Table 4 was about the company solvency. There is a tendency for increasing debt within Semen Gresik. Both the debt to equity ratio and leverage ratio have been steadily upward. The DTA ratio increased from 31 per cent in 1995 to 64 per cent in 2001, whereas the DER increased significantly by nearly 400 per cent at the same period, from 45 per cent in 1995 to 177 per cent in 2001. Hence, SG has been 'trapped' with a burden of debt. This situation may give strong justification for further privatisation of SG in the foreseeable future. The last aspect was about the liquidity and activity ratios. In this matter, SG has shown a better picture than the other previous indicators.

### National interest and sovereignty

National interest and economic sovereignty are other arguments that justify the preservation of the state's majority stake at SG. Concerning these matters, Bulpandi, former director of Varia Usaha (SG's subsidiary) who is the Associate Rector for Financial and Administrative Affairs of Muhammadiyah University at Gresik, points out that

... the cement industry is an industry that is needed for an unlimited time [or] as far as Indonesia is continually developing ... if this strategic industry is owned/controlled by foreigners ... can the government regulate them for domestic [national development] purpose ... especially concerning cement price ... since foreign companies' orientation is profit ...

Bulpandi believes that the cement industry is a strategic industry that is essential for national development. Since Indonesia is still developing, cement would be the basic material that is needed for this purpose and the reality is that a higher cement price will mean higher developing costs. As indicated earlier, Suryono, the Deputy for Economic and Development of the local government of Gresik, and Haeny Relawati, the Mayor (*Bupati*) of Tuban share comparable views. They are anxious about the cement price if foreign investors control this industry.

The concerns of Bulpandi, Suryono and Haeny essentially touch the national interest since a dollar increase per sack on the cement price will increase the cost of infrastructure development up to US\$480 million per annum (Perajaka, 2002, p. 5). Further attention given to the price of cement and the impact of the domination of MNCs is derived from the experiences of other countries and in particular The Philippines. Price volatility in The Philippines took place around 1997. When Cemex entered the country in 1997, the price of cement was Peso 90/sack/40 kg. or Peso 2,372/tonne. In 1998, when Blue Circle and Heidelberger entered The Philippines, the price went down to Peso 36/sack/40 kg. or /Peso 1,406/tonne. However, when these MNCs controlled 90 per cent of The Philippines' domestic market in 1999, the price of cement continually increased to Peso 55/sack/40 kg. or Peso 2,234/tonne in 1999; it then increased to Peso 124/sack/40 kg. or Peso 6,134/tonne in 2000, and Peso 125/sack/40 kg. or Peso 7,476/tonne in the first semester of 2001. (Lubis et al., 2002, p. 23)

Learning from those experiences primarily in the Philippines, Bulpandi doubts the effectiveness of government regulations especially those dealing with the MNCs when they control the cement industry. He also further points out that

[t]he raw material of the cement industry is from the 'land' ... hence, if we sell it to foreigners ... it means selling *tanah air*...

The above view can be considered as a 'nationalistic' reason. *Tanah air*, literally means 'land' and 'water' but the combination of the two words means the motherland. Hence, selling the cement industry is viewed as truly selling the motherland, since its materials are 'extracted from the motherland'. Overall, it can be said that the general concern of Bulpandi, Suryono, and Haeny is about the uncertainties for the future of SG as well as its stakeholders, especially when the majority ownership is in the hand of MNCs.

In Indonesia, four MNCs have already conquered the national cement industry. They include Heidelberger, Holderbank/Holcim, Lafarge and Cemex. These four MNCs dominate the four cement companies in Indonesia that have more than 90 per cent of installed production capacity. The MNCs' ownership and its related market shares in Indonesia are shown in Table 7.



Table 7. MNCs' ownership in the Indonesia's Cement Industry

Cement Industry	MNC	MNCs' ownership (%)	Production Capacity (million tonnes)	Percentage from total production capacity	[Estimated] Market share (%)
Semen Andalas	Lafarge	88.00	1.40	3.00	4.10
Semen Cibinong	Holderbank	77.33	9.70	20.78	13.00
Indocement	Heidelberger	**74.70	15.65	33.53	32.40
Semen Gresik	Cemex	25.53	17.25	36.96	43.80

(Source: Warta Ekonomi (2003), No. 14/XV/16 July, pp. 22-23; ECFIN, 1995-2001; Kementerian BUMN [Ministry of SOE], Press Release on 23 October, 2003; SG [Annual report], 2001, p. 91.)

Observing the debacle of SG particularly the domination of MNCs, N<sup>2</sup>, a middle level employee at SG, states that

... we eat corn again is not a problem, as long as [we] still have dignity, as long as [we] are not colonised again ...'

This view may be seen as nationalistic, even blurred or radically nationalistic by most proponents of privatisation. However, concerns about the domination of MNCs and their potential implications to the country as these raised by a variety of stakeholders are based on bitter experiences. N pointed out about the early years of Dutch colonisation in Indonesia. He revealed that the Dutch, who colonised Indonesia for more than 350 years, started their colonisation through their multinational corporation, the VOC (*Vereenigde Oost-Indische Compagnie*) or the Dutch East India Company.

### "Shareholder" vis-à-vis "corporate" action

The privatisation of SOEs has been seen as purely the shareholders' action with no management involvement. The management of SOEs has different tasks and responsibilities which are based on the rules in the company's articles of association (*Anggaran Dasar*), internal rules of association (*Anggaran Rumah Tangga*) and other decisions made during the Shareholders' Annual General Meeting (*Rapat Umum Pemegang Saham*). In fact, privatisation of SG is not merely shareholders' action. In the first

partial divestment of SG in 1991, the management of SG was actively involved in the process to speed up the divestment process. A similar experience took place in the SG's second divestment in 1995. In the UK, co-operation between the management and the government in achieving the success of privatisation was also critical (Abromeit, 1988, p. 77). It has been proved that management has had substantial benefits such as an increased pay cheque after privatisation (Clarke, 1993, p. 223). Hence, it is not easy to distinguish between shareholders' and corporate action in the privatisation decision. Corporate action may drive the shareholders action or vice versa. Setyanto, former President Director of PT Telkom (Persero), Tbk., has confirmed the important role of management in the privatisation process. During a public discourse about privatisation in the ISEI Kongres in Batu, 13-15 July, 2003, he pointed out that "the management is a key element in the privatisation process and its success". Thus, it is not surprising that resistance did not strongly appear in the element of SG's management.

### Cartels and competition law

The practice of creating cartels among MNCs as well as domestic cement companies is apparent. Suaeb, for example, points out that the implicit cartel existed long before MNCs entered the cement industry in Indonesia. He states that

... a cartel has existed for a long time [through the ASI]... ASI allocated the

<sup>2</sup> I had a conversation with N for almost an hour. He came to see me at my temporary office in the Investor Relation Manager's discussion room, when the manager was off. I got a temporary office during my field work in this company as well as a temporary home stay at the company guest house.



market region, sales volume, the cement price etc. ... [however] since 1997 these practices have been abandoned ... and have been replaced by market mechanisms ... (Gresik, 8 May, 2002) (my translation)

The existence of cement association is common in the cement industry around the world. In the recent wave of acquisitions of cement industries in The Philippines by MNCs, as noted by Lubis et al. (2001, pp. 22-24), the strategy of "who takes over whom" (p. 23) was apparently agreed upon by the MNCs involved. Cemex took over Rizal Cement and APO Cement, Blue Circle (UK) acquired Zeus Holding and Fortune, Lafarge bought Continental and Heidelberg purchased Limae and Alsons Cement. Following these acquisitions, they controlled The Philippines Cement Manufacturer Corp., the association of cement industry in the country. By so doing, the cement price in The Philippines is controlled by them. As a result, cement prices have soared.

A comparable case has taken place in Indonesia. Even though Heidelberg, Holcim, and Cemex participated in the due diligence process (Irianto, 2006, section 6.3.3), at the end of the process only Cemex and Holderbank/Holcim offered bid prices, and Cemex won the bid. Since then Heidelberg and Holcim moved towards taking over Indocement and Semen Cibinong respectively (cf., Lubis et al., 2001, p. 23; see also Irianto, 2006, Chapter 5). In addition, these MNCs might be aware of upcoming regulations that would prevent the monopoly of cement markets in Indonesia. Awareness of the upcoming law is important in the planning process of being able to conquer the cement industry.

On 5 March, 1999, the monopoly and anti trust Law No. 5/1999 (*UU RI No. 5/1999: Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat*), was issued. It is comparable to competition law with the pursuance of deterring monopoly and unfair trading practice. According to the Law 5/1999, Chapter III par. 4-16, monopoly practices (e.g., oligopoly, cartel, trust, oligopsoni, and vertical integration) are prohibited. Under this law, a company can be suspected of practising a monopoly whenever it controls more than 50 per cent of the market share of a certain product (par. 17, verse 2c). In the case of two or three companies controlling more than 75

per cent of a certain industry market share, these will also be suspected of practicing a monopoly (or oligopoly, par. 25, verse 2b).

Under this law, there would be less competition for Cemex in order to take over the majority stake at SG since Heidelberg, Holcim, and Lafarge have had a majority stake at Indocement, Semen Cibinong, and Semen Andalas respectively. Combining the majority ownership of these cement industries would likely exceed the upper limit of not practising a monopoly under the Law 5/1999.

## CONCLUSIONS AND BRIEF REFLECTIONS

SG is a relatively healthy company and has outperformed its main competitors, Indocement and Semen Cibinong. The company has been well developed, and it has the capacity to maintain and improve efficiency. The divestment of SG in 1998 was only part of a wider policy to privatise SOEs in Indonesia, and privatisation was an element of SOEs reforms in the country. The Reform era is characterised by the spirit of transparency, accountability, democratisation, decentralisation, and the adoption of the Universal Declaration of Human Rights. The divestment of SG was a difficult political and economic decision exercised by the central government of Indonesia. The process was considered a complex decision since there was involvement with certain parties whose relatives were high level government officials. It could also be seen as a complicated decision since it was instigated during the crisis under imposed conditionalities from the IMF as well as in the context of the emergence of neo-liberalism and global capitalism. The divestment of SG in 1998 sparked heavy opposition from various stakeholders not only because of it was viewed as profiting MNC, but also because of various concerns ranging from justice and fairness, job security, to the economic sovereignty. Future studies which focus on privatisation in Indonesia, or perhaps elsewhere, may be advanced. A comparable approach to this study could be utilised for enquiry into different industries such as telecommunication, energy, banking, pharmacy, mining, plantations, or ports. It is argued that such studies would do better to focus on certain



industrial sector rather than on all SOEs, since every industry has unique characteristics. A comparative study between industrial sectors could then be investigated. However, privatisation, as has been revealed in this study, encompasses ideology, constitution/law, politics, the economy, financial, management, accounting and social aspects as well as transparency and accountability issues. Thus, privatisation studies are certainly best observed from a perspective that incorporates such a variety of aspects.

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