

Exploring Stakeholders' Support in an International Equity Placement Strategic Alliance

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Abstract: An International Equity Placement Strategic Alliance (IEPSA) is a strategic alliance of shared ownership between partners of different nationalities. In 1998, the Indonesian government initiated the IEPSA to privatize its State-Owned Enterprises (SOE). Problems arose due to the lack of stakeholders' support, although it was able to improve the performance of the SOE. Variables within the stakeholders' support and the relationship among stakeholders were the keys to bring the IEPSA into prevalence; they comprised of its transparency, share price, the degree of the internal relationship, fulfilment of the budget deficit, company restructuring, unprecedented moment, restricted shares in the market, the existence of the floor price, and the plan for the IEPSA. The research reveals that the dimensions of the share price and the degree of the internal relations are the required bases for the government to formulate and implement a strategy to secure the stakeholders' support (involvement) using the matrix of a general strategy to secure their support.

Keywords: collaborative strategy; privatization; stakeholder; strategic alliance; state-owned enterprise; transparency

JEL classification: M10, M16

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Introduction

Early alliance literature dates back to the 1960's with the work of Evan (1966) and Warren (1967) on inter-organizational relationships. Different forms of alliances have become more critical for companies when implementing their strategies, according to Duysters, Duyster, Kok, and Vaandrager (1999: 344). The following authors have all defined a strategic alliance, Forrest (1992), Wilchocks and Choi (1994), Cobianchi (1994), Contractor and Ra (2000), Das and Teng (2000), and Holtbrügge (2004) and present common processes and structures in strategic alliances:

- **Process:** The sequence of formulating and operating strategic alliances includes pursuing a set of agreed goals, sharing respective complementary assets and core competencies, gaining mutual benefits, and strengthening competitive advantages.
- **Structure:** A strategic alliance is strategic and tactical, between two or more companies, each of them retains their independence and identity in all areas that are not subject to collaboration.

Previous research into strategic alliances has focused on non-equity alliances such as

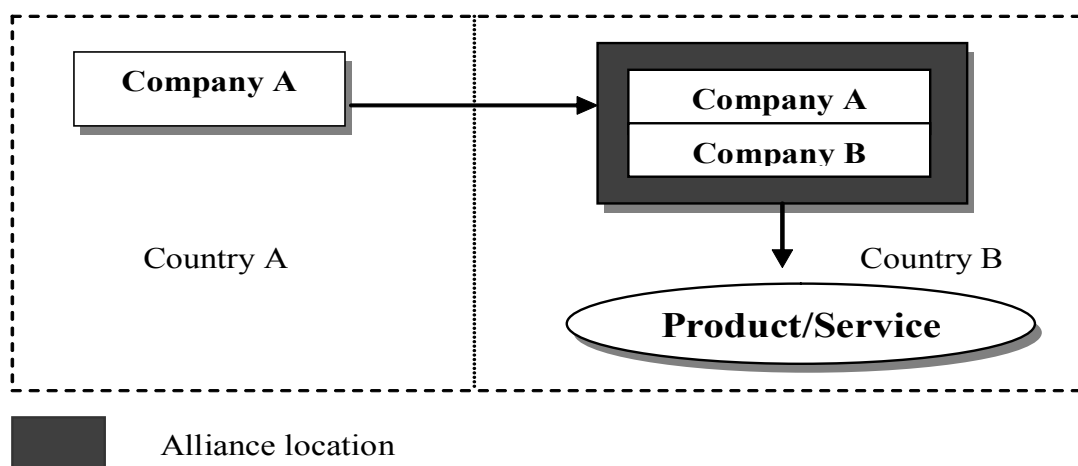
joint R&D, marketing, logistics, and human resources, as well as on equity alliances, but on the new entity of a strategic equity alliance also known as a joint venture. Research into strategic equity alliances, in particular with an existing entity, is scarce or non-existent. This research attempts to fill the gap where the existing entities are State-Owned Enterprises (SOE), the cases highlighted in this research formed their strategic equity alliances by sharing ownership with multi-national companies.

The purchase of one company's equity by another company for cash, stock, or other considerations is the characteristic of an equity placement (Segil 1996). Elements of an equity placement are 'equity', defined as an ownership interest in a corporation in the form of common stock or preferred stock, and 'placement', defined as the selling and purchasing of new securities. By purchasing one company's equity, one or more collaborative companies take(s) ownership in the company (Das and Teng 1998).

Therefore, the definition of an International Equity Placement Strategic Alliance (IEPSA) is:

The strategic and tactical cooperation between two or more companies from different countries, where

Figure 1. International Equity Placement Strategic Alliance



one of them purchases the other company's equity to allow it to take ownership. Therefore, there is a sharing of the ownership among them. This collaboration happens as they have a set of agreed-upon goals through the sharing of complementary assets and core competencies. Each of them retains their independence and identity in all the areas that are not subject to the collaboration, with the aim of gaining mutual benefits and strengthening their competitive advantages for both the strategic alliance and the headquarters of each partner.

Figure 1 depicts an IEPSA, called company A which is a foreign company in country A, and it buys a portion of the shares of company B in country B to form an IEPSA which produces a product/service.

During the establishment, it is essential to ascertain that the major stakeholders are involved (Freeman 1984). The activity is aimed at convincing the prominent internal and external stakeholders of the benefits from this, and to gain their support for the alliance (Lorange and Roos 1992). Top management might regard the partnership as a threat to their powers and careers (Lorange and Roos 1992). CEOs might be hesitant when the alliance diminishes their discretionary authority. Managers might fear they will become just a small part of a broad partnership, while the employees might worry about restructuring, losing their jobs, and additional cultural stresses. It is also crucial to consider the external stakeholders, otherwise they can resist the formation of the alliance.

Cemex, a Mexican cement company, faced opposition from its stakeholders as it entered the Indonesian market during the Asian economic crisis in 1998 by acquiring a SOE and benefitted from the low share price. Opposition from indigenous people, labor unions, managers, and the house of representative thwarted the strategic alliance and terminated it. Therefore, this article focuses on exploring International Equity Placement Strategy Alliances (IEPSAs), in particular investigating the determinant variables and the relatedness which influence the stakeholders' support during the establishment of an IEPSA and afterwards, formulate and implement a strategy to secure the stakeholders' support.

Literature Review

Wandebori et al. (2011) discerned the life cycle of an IEPSA into the phases of planning, formation, operation, and termination. Three factors that influence the planning phase consist of the stakeholders' support, finding a strategic match, and cultural understanding.

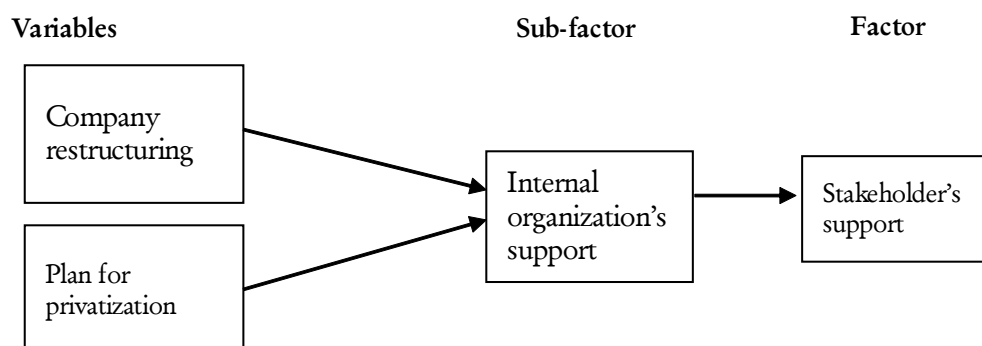
Stakeholder's Support

The first central concept for the planning phase is the stakeholders' support. To receive their support early on, the prospective partners should keep them informed of the intention to form the IEPSA and the benefits that might occur from doing so. Table 1 shows

Table 1. Operationalization of Stakeholder'ss Support Concept

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

Figure 2. Relationship of Company Condition Before Privatization, and Its Plan for Privatization Variables with the Stakeholder's Support



the operationalization of the stakeholders' support concept.

Basu (1994), Clarke et al. (1994), Kaufman and Siegelbaum (1997), Kikeri and Nellis (2002, 2004), and Moore (1992) divided the stakeholders' support into the internal organization's support and social support.

Internal organization's support

The definition of a labor union is an association of workers formed to advance its members' interests concerning their wages, benefits, and working conditions (Merriam-Webster 2003). Through collective bargaining, unions act as mediators between employees and employers regarding wages, benefits and other issues. The definition of management is the person(s) who has/have authority to take charge of the divisions in the company (Merriam-Webster 2003). The same with the labor union, in a privatization, management is afraid of losing its power related to the loss of wages and benefits (Ramamurti 2000).

The terms labor union and management support are the internal organization's support. A foremost concern is 'rationalization' (Kikeri et al. 1994). It is the laying-off of employees and management for the sake of efficiency, related to the wages and benefits saved (Kikeri

et al. 1994). These are related to the company's condition, restructuring, and plan for privatization. These variables affect the labor union's support for the intended IEPsA. Thus, an assessment of the internal organization's support is carried out by examining the company's plan for restructuring and privatization. Figure 2 presents the relationship.

Company restructuring

The condition of the company before the IEPsA plays a role in the internal organization's support. Restructurization helps improve the condition both financially and culturally, and relates to equal treatment among the employees reinforcing the internal organization's support for the intended IEPsA (Kikeri and Nellis 2002; Ramamurti 2000). Governments may opt to initiate an IEPsA urgently, to improve an SOE's performance. However, most governments prefer to undertake prior restructuring, due to the expectation that it will increase the value of the shares (Kikery and Nellis 2002; Ramamurti 2000). As restructuring has taken place, the representatives are more inclined to support the IEPsA. Therefore, the assessment is as follows:

- If the restructuring of the company has taken place before the IEPsA's initiation,

and has positively affected the performance of the firm, then the company's restructuring has a positive influence on the internal organization's support.

- If prior restructuring did not take place or if the poor performance continued, the company's restructuring has a negative influence on the internal organization's support.

Plan for privatization

A privatization scheme usually occurs during a crisis which hampers the economic growth of a country (Ramamurti 2000), including raising its budget deficit and rate of unemployment. One of the objectives of privatization is reducing the budget deficit. For most people it is difficult to find alternative employment; thus, rationalization has become a sensitive issue. A guarantee that rationalization will not be applied helps eliminate the opposition of people (Kikeri and Nellis 2002). Partners should ensure that the business will not lay off people, but look to recruit extra people if possible. Issues of employment and rationalization may come from multiple angles. For example, if the company is committed to contributing to the industry's development, this translates to a requirement for more employees. If there are layoffs or if business remained steady, the alliance will have to absorb the extra cost of these layoffs (Kikeri and Nellis 2002: 27). Therefore, the assessment is as follows:

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

Internal organization support assessment

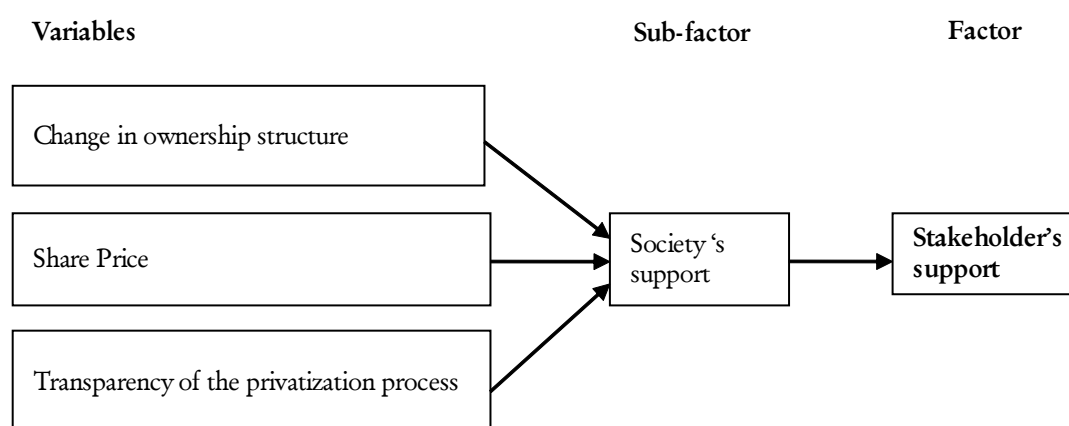
There are two variables that determine the internal organization's support, i.e., company restructuring and the plan for privatization. Each variable has equal weight and can be positive or negative. For the overall assessment of the internal organization's support, the two influences are added together, which gives a five-point scale for the internal organization's support ranging from negative, a bit negative, neutral, a bit positive and affirmative.

Society's Support

The definition of society is a voluntary association of individuals for common ends; especially an organized group working together or periodically meeting because of common interests, beliefs, or professions (Merriam-Webster 2003).

The government owns the majority of the shares of the SOE. Based on Boycko et al. (1995), society also has a stake in these corporations. Consequently, the community has an interest in changes in the government's ownership of companies (Kikeri and Nellis, 2002). In the process of an IEP SA, the state transfers its share-ownership to a foreign partner(s). One of the objectives is to obtain funds from this transaction to use to overcome budget deficits, which subsequently affect the wealth of society (Ramamurti 2000). Therefore, a community is interested in knowing the share price of the stock that is sold by the government (Ramamurti 2000). For a society to follow the government's actions, transparency is required. A lack of transparency leads to allegations of corruption and provides ammunition to political and other opponents, creating a backlash from investors and the public at large, and threatens to halt the privatization and liberalizing reform in general. The more

Figure 3. Relationship of Change of Ownership, Share Price, and Transparency of the Privatization Process Variables with the Stakeholder's Support



transparent the process is, the greater the expected income from the transaction is, as a result of the higher share price (Kikeri and Nellis 2002; Rose-Ackerman 1999). Based on this, the assessment of society's support is by looking at the change in the ownership's structure, the share price, and the transparency of the privatization process. Figure 3 presents the relationship of the change of ownership, share price, and transparency of the privatization process variables with the stakeholders' support.

Change in ownership structure

The government and the house of representatives stipulate the ownership structure between the state and its foreign partner (Megginson and Netter 2000). The agreement, permission from the representatives and the amount of the shares to be sold, form the legal structure of the IEPSA. Society demands that the government maintains its majority stake in the corporation (Ramamurti 2000). Large-scale privatization can create much opposition (from the community) since it may affect an intangible balance of power between the private and public sectors (Van de Walle 1989). According to De Castro and Uhlenbruck (1997), in less-developed coun-

tries, governments favor majority ownership to show that "assets are not being given away to foreigners." Gradually, the governments would reduce their holdings (Ramamurti, 2000). Based on this:

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

Share price

The determination of share price is by assessing the book value, stock price, and the fair value of the company. According to Malhotra (2003), the best alternative to the share price can be based on the fair value of the firm, which considers not only the current condition but also the expected, future condition. The determination of fair value is by calculating the free cash flow of the firm from the financial data of the intended IEPSA.

Comparison between the actual price of the shares with the fair value is associated with social support. The lower the actual share price is, compared to the fair value, the greater the negative influence will be on the social support.

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

Transparency of the privatization process

Putting transparency into place requires a host of measures. Speed and a full transfer of the assets, without special privileges and concessions for insiders, is crucial, particularly in the case of competitive enterprises (Kikeri and Nellis 2002: 26). The most effective way is by promoting competition in the transaction process (Kikeri and Nellis 2002). The greater the openness and competition in the selection process, the greater the likelihood that transparency will be achieved.

The assessment of transparency on social support is by examining two potential

negative issues in the tender process, which are: 1) Fixing of the share price and 2) bribing the ruling political party.

- If no adverse issues occurred in the tender process, then transparency has a positive influence on social support.
- If negative issues occurred, then transparency has a negative influence on social support.

Society's support assessment

There are three variables to determine the social support, i.e., the change in the ownership's structure, the share price, and the transparency of the privatization process. Each of these variables has equal weight and can be positive or negative. For an overall assessment of the social support the three influences are added together leading to a seven-point scale for strategic importance, ranging from very negative (-), negative (-, -, + / - H" -), a bit negative (-, -, + H" -), neutral (+ / -), a bit positive (+, +, - H" +), positive (+, +, + / - H" +), and affirmative (+). 'A negative,' 'a bit negative,' as well as 'a bit positive,' and 'positive' assessments are rounded to negative and positive evaluations with notes and explanations.

Conclusion Stakeholder Support Assessment

Based on the data findings for the internal organization's support and social support, the evaluation of the stakeholders' support includes the following conditions:

- If there are positive influences on both the internal organization's support and social support, then there is stakeholders' support for the IEPSA.
- If there are negative influences on both the internal organization's support and social support, then the stakeholders disapprove of the IEPSA.

- If there is one positive sub-factor and one negative sub-factor between the internal organization's support and social support then there is neutral stakeholders' support for the IEPSA.
- If there are neutral influences on both the internal organization's support and social support, then there is neutral stakeholders' support for the IEPSA.

Methods

The development over time of an IEPSA is complex. Studying this type of complicated situation with a quantitative approach could be inferior to a qualitative approach, because a quantitative research approach is more fixed whereas a qualitative approach allows flexibility and is therefore more useful for dealing with complex situations (Gummesson 1991; Silverman 2000: 1; Yin 2003). There are associations between qualitative research approaches and a case study approach. The definition of a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the event and context are not defined (Yin 2003: 13).

The appropriateness of applying a case study approach versus other research approaches relates to the type of research question (Yin 2003: 5). In general, "what" questions may either be exploratory or about prevalence (in which survey research or the analysis of archival records are favourable). "How" and "why" questions are likely to favor the use of case studies, experiments, or histories. Regarding exploration in this article, it requires a description, explanation, and exploration of the cases. As such the "what," "how," and "why" questions are relevant to use; therefore, a case study approach is appropriate and relevant.

The research used a pattern-matching logic related to the dependent or the independent variables (Yin, 2003). Since the case study is also a descriptive one, pattern matching is relevant, as long as the predicted pattern of specific variables is defined before the data's collection (Yin, 2003).

External Validity

One disadvantage of a case study approach is the limited external validity of the results (Yin 2003). Case studies have been criticized for being too situation specific, and therefore not appropriate for generalization (Dubois and Gadde 2002). Yin (2003) provides reasons for conducting single-case studies; the preference is for a study to contain multiple cases which help with the external validity. The choice leads to two types of decisions: The number of cases and the criteria for selecting the cases.

Number of cases

The critical question is how many cases should be undertaken in a study to develop a generalizable theory? Malhotra (2006) considers that a minimum of 30 cases is enough to find the normal distribution of the generalizable findings. However, this number of cases would probably lead to a lot of repetitive conclusions (Yin 2003). An advantage of a case study approach is the potential for collecting in-depth data (Voss et al. 2002; Yin 2003). The right balance for the number of cases is between having fewer cases with more detailed information versus adding more cases for generalization purposes. This balance occurs when learning new things from additional cases diminishes, i.e., saturation takes place. Perry (1998: 793) states that four to six cases form a reasonable minimum and that ten to fifteen cases are the absolute maximum number of cases. Eisenhardt (1989: 545) states that there

Table 2. Cross-case Data of the IEPSA Profiles

| No | | Indosat | Semen Gresik | Bank Niaga | Bank Permata | Bank International Indonesia | Bank Central Asia |
|---|----------------------|------------------|--|-----------------|--|--|-----------------------------|
| 1. | Established IEPSA | 2002 | 1998 | 2002 | 2004 | 2003 | 2002 |
| 2. | Industry | Telecom | Cement | Banking | Banking | Banking | Banking |
| 3. | Rank of market share | 2 | 1 | 9 | 7 | 6 | 2 |
| 4. | Foreign partner | Singapore | Mexico | Malaysia | England | Singapore South Korea Swiss England | United States |
| <i>Ownership based on SPA</i> | | | | | | | |
| 5. | Foreign | 41.94% | 25.53% | 51.0% | 51.0% | 51.0% | 51.0% |
| | Government | 15% | 51.01% | 27.98% | 45.6% | 22.5% | 8.56% |
| | Public | 43.06% | 23.46% | 21.02% | 3.4% | 26.5% | 40.44% |
| | Local | 58.06% | 74.47% | 49.0% | 49.0% | 49.0% | 49.0% |
| <i>Ownership in the operation phase</i> | | | | | | | |
| 6. | Foreign | 41.94% | 25.53% | 51.0% | 51.0% | 51.0% | 51.0% |
| | Government | 15% | 51.01% | 9.76% | 25.9% | 20.47% | 5.02% |
| | Public | 43.06% | 23.46% | 39.24% | 23.1% | 28.53% | 43.98% |
| <i>Ownership in the termination phase</i> | | | | | | | |
| 7. | Foreign | 41.94% (Qtel) | 24.9% (Rajawali Corp) 0.63% (Cemex) | 52.6% (CAHB) | 89% (Consortium of Stanchart and Astra) | 56.33% (Sorak consortium) | 51% (Farindo consortium) |
| | Government | 15% | 51.01% | 0% | 0% | 0% | 0% |
| | Public + Private | 43.06% | 24.09% | 47.4% | 11.0% | 43.67% | 49% |

is no ideal number of cases, between four to ten cases usually works well. In this research, the selection of six cases conforms to both Perry (1998) and Eisenhardt (1989) on the acceptable number of cases.

Case selection criteria

According to Voss et al. (2002: 203) and Yin (2003: 47) the selection of cases in a multiple case study is either to: a) Predict similar results for all cases ("literal replication"); or b) produce contrary results but for predictable reasons ("theoretical replication"). The replication logic is considered a tactic to improve the external validity (Yin 2003). Similarly, Eisenhardt (1989: 537) argues about theoretical sampling, stating that cases may be chosen to replicate previous cases, or extend a new theory, or to fill academic categories and provide examples of adverse types.

Ramamurti (2000: 530) mentioned that previously private-owned SOE were more likely to be privatized than those previously wholly state-owned. The process of privatization may thus be different for firms that were SOE from the beginning versus Bank Taken-Over (BTOs), the previous private banks acquired by the government, later restructured, and ultimately offered to form the IEPSAs. The bases of replication logic are the differences in mind; for theoretical replication, it incorporates both categories of cases, while for literal replication it embeds several cases for each category. There are two categories; SOE and BTOs. Indosat and Semen Gresik have been SOE companies from the start, while Bank Niaga, Bank Permata, Bank International Indonesia, and Bank Central Asia are enterprises which were once private-owned, i.e., BTOs.

Construct Validity and Reliability

The construct's validity and reliability are both addressed during the data's collection. The operationalized conceptual framework provides guidance on the type of data to be collected. This tactic can be undertaken to improve the process to construct the validity and reliability (Yin 2003). The tactic includes multiple sources of evidence (so that triangulation can take place) and a case study protocol. The latter also helps establish a chain of evidence for the development of a case study database.

Multiple sources of evidence

Multiple sources of evidence, such as interviews, observations and document analysis, were applied to this research study. The evidence also includes direct observations, which is a method of data collection based on watching and observing the situation of interest, and the relevant facts, actions, and behavior, during a site visit. Other evidence includes multiple respondents in each case. Perry (1998: 794) suggests that a research study should have at least three interviews per case study. This research follows his suggestion. Using multiple respondents from different levels in an organization reduces the risk of bias. The analysis differentiated respondents between those who were internal and external to the IEPSA (knowledgeable outside party) leading to four different categories of respondents.

Top management: High ranking executives who translate the policy into goals, objectives, and strategies, and project a shared-vision of the future. Top management makes decisions that affect everyone in the organi-

zation and is held entirely responsible for the success or failure of the enterprise. Top management includes the chairman/chairwoman, chief executive officer, managing director, president, executive directors, and executive vice-presidents.

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

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

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

Case respondents

The researchers gathered the data with the help of two accessible elite informants in each case. Data collection by the case is provided next to illustrate where the collected data came from.

Indosat: The interviews included seven people: Director, top management (one respondent is in the Vice President (VP) position), manager (one respondent is in an Assistant Vice President (AVP) position), employees, and a deputy minister of the Ministry of the SOEs, and the telecommunications consultant. Key persons, in particular with the telecommunications consultants, were outsiders. In other words, the findings and analysis were not solely dependent on the internal organization, but rather they were also based on the evidences from the key persons outside the organization. The respondents provided data concerning the government's prerequisites for the intended alliance, based upon the national development commitment.

The researchers also collected secondary data from prominent people. Table 3 pre-

Table 3. Indosat Data Gathering Scheme

| Position | Interview | Observation | Document |
|-----------------------------|---|--|---|
| Top management | - Director (1) - Vice President of Strategic Planning (1) | Strikes by Indosat's union against the privatization on the streets of Jakarta (in front of headquarters of Indosat) (1) | - Four annual reports - 11 articles - Two meeting minutes of IEPISA process - 30 other documents |
| Middle management | Assistant Vice President of Marketing (1) | | |
| Employees | Employee (2) | | |
| Knowledgeable outside party | - Deputy Minister of SOE (1) - Telecommunications consultant (1) | | |

Table 4. Semen Gresik Data Gathering Scheme

| Position | Interview | Observation | Document |
|-----------------------------|---|--|--|
| Top management | Director (1) - | - The strikes of a labor union, local government, and society flooded the streets of Jakarta in the beginning phases of IEP SA Within seven years of the IEP SA, there was a giant banner on the wall of its headquarters accusing Cemex of pushing the government to exercise its put option, with the Indonesian flag ahead of it (2) | - Four annual reports - Nine articles |
| Middle management | - Manager of Q & A - Manager of Human Resource (2) | | |
| Employees | Employee (2) | | |
| Knowledgeable outside party | Member of parliament (1) | | |

Table 5. Bank Niaga Data Gathering Scheme

| Position | Interview | Observation | Document |
|-----------------------------|---|-------------|---|
| Top management | Vice President of Strategic Planing (1) | - | - Four annual reports - Three articles |
| Middle management | Assistant Vice President of General Affairs (1) | | |
| Employees | Employee (2) | | |
| Knowledgeable outside party | Consultant from the banking industry (2) | | |

sents views about Indosat from the Director of Indosat, the minister responsible for SOE, a former head of the house of representatives, a telecommunications analyst, and a person from Indonesian Telecommunications Watch, a Non-Government Organization. All the

types of secondary data are presented, i.e., annual reports, financial reports, and observations so that triangulation could take place.

Semen Gresik: The researchers interviewed six people comprising a director, managers, employees, and a member of parliament

Table 6. Bank Permata Data Gathering Scheme

| Position | Interview | Observation | Document |
|-----------------------------|--|-------------|---|
| Top management | - Government representatives (2) - Director (1) | - | - Four annual reports - Two articles |
| Middle management | - | | |
| Employees | Employee (1) | | |
| Knowledgeable outside party | Vice President of PPA(1) | | |

Table 7. Bank International Indonesia Data Gathering Scheme

| Position | Interview | Observation | Document |
|-----------------------------|--|---|---|
| Top management | - Independent - representative (1) - Director (1) | The strikes from the union were frequent before the IEPISA aspired for equal treatment between the ethnicity indigenous and Chinese (of the directors and management) (1) | - Four annual reports - Two articles |
| Middle management | - | | |
| Employees | - | | |
| Knowledgeable outside party | Consultant from the banking industry (2) | | |

and this is shown in Table 4. Secondary data were related to the opinions of prominent people such as the minister responsible for SOE, the CEO of Cemex, VP of Cemex, CEO of Semen Gresik, societies, the head of the IBRA.

Bank Niaga: Six people were interviewed comprising a general manager from the strategic planning department, a manager from the public affairs department, employees, and a consultant from the banking industry, as shown in Table 5. The data included the opinions of prominent people from the house of representatives.

Bank Permata: Five people were interviewed, i.e., the government's representatives, a director, an employee, and a vice director from an asset management company (PT. Perusahaan Pengelola Aset/PPA), as shown in Table 6. Secondary data included opinions from prominent people such as the CEO of Bank Permata and the director of an asset management company.

Bank International Indonesia: The researchers interviewed four people: An independent representative, a director, and a consultant from the banking industry. Due to limited access, the only data from the employees were in the form of secondary data. Second-

Table 8. Bank Central Asia Data Gathering Scheme

| Position | Interview | Observation | Document |
|-----------------------------|--|---|--|
| Top management | Government representative (1) | The strikes of labor union and society flooded the streets of Jakarta in the beginning phases of IEPISA (1) | - Four annual reports - Four articles |
| Middle management | Manager Marketing (2) | | |
| Employees | Employees (2) | | |
| Knowledgeable outside party | Consultant from the banking industry (2) | | |

Table 9. Collected Data*

| Data | Number of Data Points |
|--|-----------------------|
| Semi-structured interviews | 34 |
| E-mails from the international equity placement alliance process | 20 |
| Minutes from meeting of the international equity placement alliance process | 2 |
| Business plans, draft, and final alliance contracts | 24 |
| Other working documents from the international equity placement alliance process | 60 |
| Annual reports | 24 |

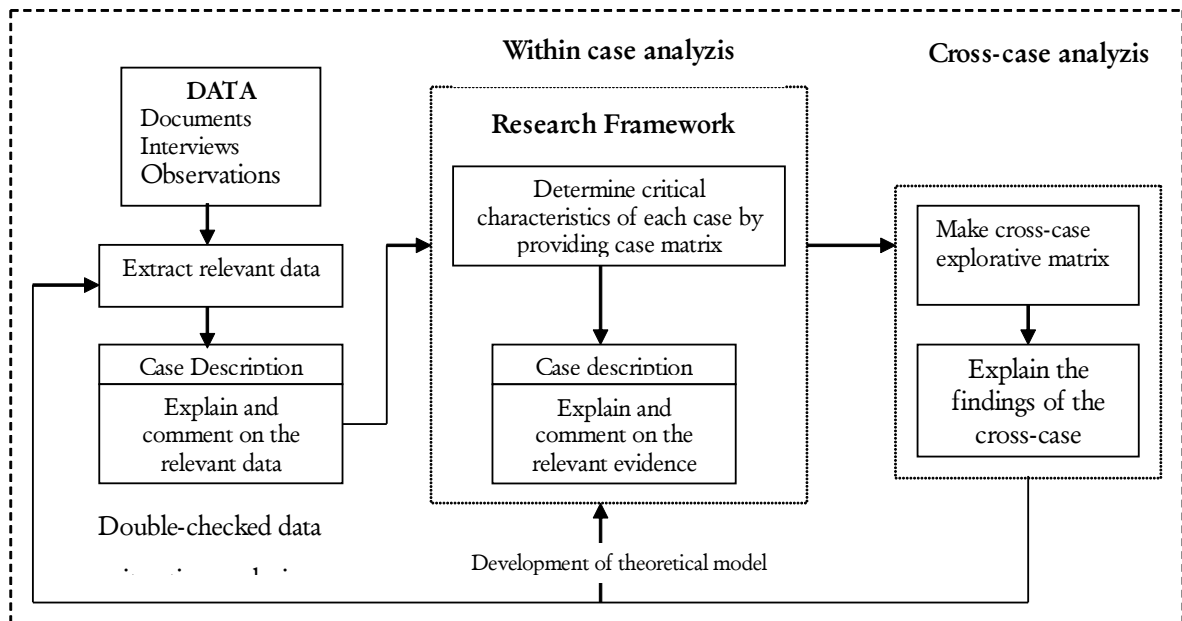
*Provides an overview of the data that were collected overall from the different sources

ary data also included the opinions of prominent people about the alliance (commissioner and societies). Other sources included annual reports, financial reports, and observations; see Table 7.

Bank Central Asia: The researchers interviewed seven people. There were interviews with a government representative in the alliance, managers, employees, and a consultant from the banking industry. Secondary data included opinions about the partnership from prominent people such as the CEO of Farallon, the minister responsible for SOE,

Minister of Manpower and Transmigration, head of the labor union, and the head of the IBRA. The CEO of Farallon confirmed the data's findings about the foreign partner's commitment to the alliance, and issues about employment. The Minister of Manpower and Transmigration confirmed the requirement's on the host company's part, in terms of employment matters. The head of the IBRA verified the provision of the host company's role regarding employment, commitment, and long-term relationship. Table 8 provides the data gathering scheme.

Figure 4. Data Analyzis Framework



Internal Validity

The data analysis addressed the internal validity (Yin 2003). The data analysis approach fits with the three research steps: Exploration, explanation, and validation (Kerssens-van Drongelen 2001). Figure 4 presents a general overview of the data analysis process for this study.

From the cases, the researchers obtained multiple sources of data, but only extracted the relevant data, as suggested by Kerssens-van Drongelen (2001). We also followed Eisenhardt (1989) who determined the associated characteristics of cases from a cross-case matrix. In summary, the following steps were taken to collect and analyse the data:

- Gather the information based on interviews
- Gather the data from our observations
- Gather the secondary data, such as documentation

- Combine a, b, and c and look for patterns and explanations
- Compare across cases and draw the overall conclusions

Result and Discussion

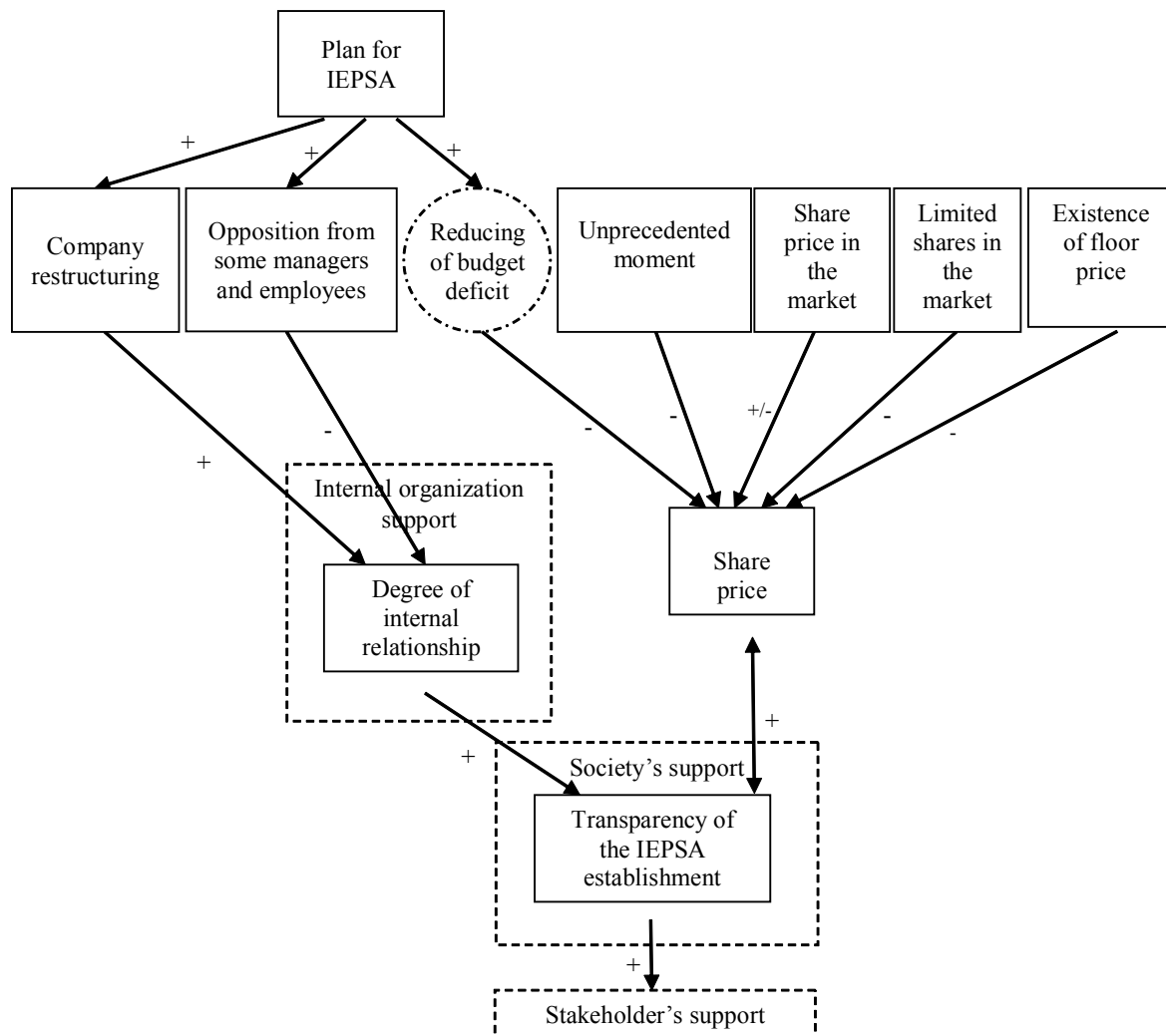
Table 10 reveals that most IEPSAs faced opposition from their stakeholders, except for Bank Niaga and Bank Permata. In Bank Niaga's case, the stakeholders' support was obtained mostly from their engagement with the internal relationship among the directors, management, and employees; while in Bank Permata's case it was due to a prior, efficient, company restructuring.

The only variable which showed the same pattern as the stakeholders' support was that of the transparency of the privatization process. Another observation is that a negative value for one or both of the internal organization's support variables, i.e., company

Table 10. The Result of Stakeholder Support

| | Indosat | Semen Gresik | Bank Niaga | Bank Permata | BII | BCA |
|---|---------|--------------|------------|--------------|-----|-----|
| <i>Stakeholder support</i> | | | | | | |
| Internal organization support | +/- | - | + | + | +/- | +/- |
| Company restructuring | - | - | + | + | + | + |
| Plan for privatization | + | - | + | + | - | - |
| <i>Society support</i> | | | | | | |
| Change in ownership structure | - | + | - | - | - | - |
| Share price | - | - | + | + | + | - |
| Transparency of the privatization process | - | - | + | + | - | - |

Figure 5. Stakeholder Support



restructuring and the plan for privatization, is accompanied by two or more negative values for the three society support variables, i.e., change in ownership structure, share price, and transparency of the privatization process. In other words, a neutral or lack of internal organizational support coincides with a lack of

social support. The plan for privatization and the share price showed several commonalities with the stakeholders' support. It is also interesting to observe that across cases could find another pattern.

These observations point to a typical pattern in each of the cases; the primary fac-

Table 11. Generic Stakeholders' Strategies Matrix Categories and Broad Approach Freeman (1984) and Savage et al. (1991)

| | | Relative competitive threat | |
|--------------------------------|------|--------------------------------|------------------------------|
| | | High | Low |
| Relative cooperative potential | High | Swing (change the rule) | Offensive (exploit) |
| | | Mixed Blessing (Collaborating) | Supportive (Involve) |
| | Low | Defensive | Hold (hold current position) |
| | | Non-supportive | Evolving |

Table 12. The IEPSA Stakeholder Based on Cooperative Potential and Competitive Threat

| | Relative Cooperative Potential | Relative Competitive Threat |
|-----------------------------|---|---|
| Management | High <ul style="list-style-type: none"> Top management, middle management, and employees are curious about the compensation issues, in such a way that the IEPSA would flourish to increase the compensation All layers of people in the IEPSA expected that the IEPSA would secure their employment by improved performance | Low <p>There was no way for the stakeholders, top management, middle management, and employees to assemble to become a competitive threat to the alliance during the period of IEPSAs in Indonesia, where the industry had collapsed, and high inflation and high unemployment rates occurred during the economic crisis</p> |
| Knowledgeable outside party | High/Medium <ul style="list-style-type: none"> The knowledgeable outside party was usually related to the industry, such as the Indonesia Telecommunications Watch, the Indonesian Cement Association, or the related labor union. Therefore, they hoped that the IEPSAs would trigger and enhance the various industries restructurization The political party interfered with the process of initiation since they have interests with the issues and the incoming capital from the SPA to secure the forthcoming political election | Low <p>There was no way for the knowledgeable outside party to form a competitive threat, in particular during the economic crisis</p> |

tor that determines the stakeholders' support is the transparency of the privatization process. If the process is not transparent, which is a societal support issue, then there is also no overall positive support from the stakeholders. Two factors influenced the transparency of the process. One factor is the degree of the internal relationship. It is an internal organizational support issue and reflects whether the organization's support includes excellent relationships between the employees, managers, directors, and owners. Company restructuring, affected by the plan for privatization, influenced the degree of the internal relationship.

Another factor influencing the transparency is the share price. The share price's determination is affected by the motivation to overcome the budget deficit, and by factors such as the existence of an unprecedented moment, the share price in the market, the floor price, and the limited number of shares on the market. In Bank Permata's case, the transparency of the whole process was high. This situation was influenced positively by the share price in the Sales and Purchase Agreement (SPA), which was above the fair value.

The benchmarked share price in the market was high; the government set a high floor price, at three times the Price to Book Value (PBV). There was no unprecedented incident, (such as the Bali bombings in October 2002 before the IEPSA for Indosat) and by the positive internal relationships resulting from prior restructuring. It is in contrast to the transparency of BCA's possessing, issues from the low share price and the lack of good internal relations, which despite the restructuring and the plan for privatisation, remained problematic. The share price of Bank Niaga's stock on the Jakarta Stock Exchange of six PBV (Rp 100) could not be the benchmark price for the share price in the Sales and Purchase Agreement (SPA), since it was not considered as liquid in terms of number of shares being traded in the bourse (only 2.8 percent of the total shares). The actual share price for Bank Niaga's SPA was 1.48 PBV.

According to Freeman (1984), and Savage, Nix, Whitehead, and Blair (1991), the stakeholders can be evaluated based on two dimensions: (1) Based on their relative cooperative potential or (2) their relative competitive threat, as presented in Table 11.

Table 13. A Generic Strategy to Secure Stakeholder Support (Involvement)

| | | Share Price | |
|------------------------------|------|--|---|
| | | High | Low |
| Degree of internal relations | High | Maintaining (keep up the good work) | Balancing (accelerate synergy) |
| | | Convincing (refine the consolidation) | Adapting (adapt to accelerate) |
| | Low | Persuading (complete the consolidation) | Rectifying (consolidate to accelerate) |
| | | Restructuring (initiate the restructurization) | Evolving (initiate restructurization to accelerate) |

Table 14. The Case Study Stakeholder Position, Strategy, and Required Implementation

| | Transparency | The Degree of Internal Relationship | Share Price |
|--|---|---|--|
| | | <i>Keep up the good work</i> | |
| <i>Maintaining</i> <i>Bank Permata</i> <i>Bank Niaga</i> | The transparency of forming the IEPsAs considered as excellent. The process of finding the candidate, due diligence, assessment, and SPA were all right. For Bank Permata, this is due to the more comprehensive process held by IBRA, while for Bank Niaga, this related to strong ties between the management and employees which had spurred a conducive corporate culture | By the time of the IEPsAs' initiation, Bank Permata had completed the restructuring which reflected the high degree of its internal relationship. For Bank Niaga, the current relationship between management and employees had already created a conducive corporate culture | For their SPAs, the share price of Bank Permata was 3.18 PBV, a record among other previous IEPsAs which was apparently above the fair value. For Bank Niaga, the price was considered to be above the fair value. |
| <i>Convincing</i> <i>BII</i> | Transparency problems still occurred in the process of the IEPsA's initiation. | <i>Refine the consolidation</i> Transparency problems still occurred in the process of the IEPsA's initiation. | The price of the SPA for BII was above the fair value |
| <i>Persuading</i> | There is a slight issue in the process of IEPsA initiation | <i>Complete the consolidation</i> There is a problem in the internal organisation due to the opposition from managers and employees | The price of the SPA is above the fair value |
| <i>Restructuring</i> | There is a slight issue in the process of the IEPsA's initiation | <i>Initiate the restructuration</i> There is a problem in the internal organisation due to the opposition from managers and employees | The price of the SPA is above the fair value |
| <i>Balancing</i> | There is a slight issue in the process of the IEPsA's initiation | <i>Accelerate synergy</i> The degree of the internal relationship is excellent | The price of the SPA is below the fair value |
| <i>Adapting</i> | There is a slight issue in the process of the IEPsA's initiation | <i>Adapt to accelerate</i> The degree of internal relationship is excellent. There is a big discrepancy between the corporate culture of the partners | The price of the SPA is below the fair value |
| <i>Rectifying</i> Indosat BCA | Transparency problem existed in the process of the IEPsA's initiation | <i>Consolidate to accelerate</i> There were problems from the opposition from the managers and employees | The price for BCA and Indosat was below the fair value |
| <i>Evolving</i> Semen Gresik | Transparency problem existed in the process of the IEPsA's initiation | <i>Initiate restructurization to accelerate</i> There were problems because of opposition from the managers and the unharmonious relationship with the foreign partner | The price for Semen Gresik was below the fair value |

This strategy matrix intends to formulate strategies that convince the stakeholders not to interfere and reduce the organization's ability to achieve its objectives (that is, threaten) and maximize the stakeholders' roles and assistance regarding attaining the organization's objectives (cooperate) (Polonsky, 1996).

Therefore, following the matrix (as in Table 11), the determination of the IEPSAs' stakeholders, based on their relative cooperative potential and relative competitive threat, concludes that each of the stakeholders has a high relative cooperative potential and low relative competitive threat, as presented in Table 12. As such, the strategy undertaken is supportive (involved) where the government should be able to endorse the stakeholders, both internal and external, to support the intended IEPSA by formulating and implementing an effective strategy.

To refine the strategy of support (involvement) from the IEPSA's stakeholders, based on the variables of share price and the degree of internal relations as revealed in Figure 5, each of the IEPSAs formulates its own customized strategy, based on its characteristics (Table 13).

Firstly, maintaining is the strategy to keep up the good work when the share price is high, and the degree of internal relations is high. Convincing is the strategy to refine the consolidation when the share price is high, and the degree of internal relations is high. Balancing is the strategy to accelerate synergy when the share price is low, and the degree of internal relations is high. Adapting is the strategy to adapt to accelerate when the share price is low, and the degree of internal relations is high. Persuading is the strategy to complete the consolidation when the share price is high, and the degree of internal relations is low. Restructuring is the strategy to initiate the re-

structure when the share price is high, and the degree of internal relations is low. Rectifying is the strategy to consolidate and accelerate when the share price is low, and the degree of internal relations is low. Finally, evolving is the strategy to initiate restructuring and accelerate when the share price is low, and the degree of internal relations is low.

The case study positions regarding this matrix are presented in Table 14. Bank Permata and Bank Niaga implemented the strategy of maintaining to keep up their excellent work. BII implemented the strategy of convincing to refine the consolidation. Indosat and BCA implemented the strategy of rectifying to consolidate and accelerate. Semen Gresik implemented the strategy of evolving to initiate the restructuring and accelerate. For the IEPSAs having slight issues in the process of their initiation and problems with their internal organizations due to opposition from managers and employees, the strategy used is persuasion to complete the consolidation. For the IEPSAs having a slight issue with the process of initiation and faced problems with their internal organization, the strategy is restructuring to initiate the restructure. For the IEPSAs having a slight issue in the process of their initiation, although their internal relationship is excellent while the price for the SPA is below the fair value, the strategy is balancing to accelerate the synergy. For the IEPSAs having a slight issue in the process of their initiation, but the degree of their internal relationship is excellent, although they have a high discrepancy between the corporate cultures of the partners and the price for the SPA is below the fair value, the strategy is adapting to accelerate.

For practical implications, managers should ensure a transparent process when forming the IEPSA. Transparency will moti-

vate society to support the IEP SA. Managers should acknowledge that the existence of the internal organization's support and the state of the share price affect the transparency process when forming the IEP SA. The characteristics of the internal organization's support are related to the excellent relationships between employees, managers, directors, and owners. The degree of this internal relationship is influenced by the company's restructuring, which in turn is influenced by the plan for privatization. Besides that, the managers should know what factors influence the share price, and how to overcome the budget deficit. The factors that influence the share price are the existence of an unprecedented moment (any incidents that hampers the performance of the market), the share price on the market, floor price (tends to reduce the share price compared to its fair value), and the limited number of shares on the stock market exchange (illiquidity).

Managers of the IEP SA should be aware that the strategy the stakeholders need to embrace is a supportive (involved) one, where the IEP SA and government should be able to endorse the stakeholders, both internal and external, to support the intended IEP SA by formulating and implementing an effective strategy.

Conclusion

Stakeholders' support consists of such determinant variables as the transparency of the establishment, the share price, the degree of the internal relationship, fulfilment of the budget deficit, the company's restructuring, any unprecedented moment, restricted quantity of shares available to the market, the existence of the floor price, and the plan for the IEP SA. Jahansoozi (2006) mentioned when

there is a lack of trust, or a state of distrust exists in the organization-stakeholder relationship, transparency is a required condition for rebuilding trust and commitment to the relationship. The concept of transparency is linked to openness and is described as comprising of both relational characteristics as well as an environmental condition for organizational processes. In addition to Jahansoozi (2006), this research revealed that transparency is influenced by the internal organization's support and the share price is derived from the company's restructuring, opposition from a number of managers and employees, reducing of the budget deficit, an unprecedented moment, its share price on the market, limited shares on the market, the existence of a floor price, and the plan for the IEP SA.

Frank conversation with the partners before the alliance intention is known (Kaplan et al. 2010) and avoiding mutual suspicion of opportunistic behavior between the alliance partners are activities which may help to avoid facing opposition from some managers and employees (Kale et al. 2000). It is mandatory for the firms to collect evidence about their partners' credibility and trustworthiness, and communication facilitates this process (Creed and Miles 1996). This sharing of information between partners which leads to "information symmetry" (Hart and Saunders 1997: 34) is the key to the reciprocal process to gain credibility and thus create a trusting environment.

Prior company restructuring is required to select and maintain the necessary resources and capabilities bundled and synergized into the core competencies for the alliance. This bundling, synergy, and complementarity provided harmony in the organization of the partnership and therefore spawned a high degree of good internal relationships where the internal organization's support can be obtained.

Internal organizational support and the share price influence the transparency of the IEPsA process. In other words, the greater the support from the internal organization for the IEPsA is, and the higher the share price is, the more propensity there is of acquiring society's support for it, due to its transparency. All in all, this state of transparency for the IEPsA's process, which afterwards induces the society's support, influences the stakeholders' support. It is consistent with Bai, Liu, Lu, Song, and Zhang (2003) who mentioned that corporate governance, including transparent disclosure, has a positive correlation with the market's valuation of the asset (indicated by its share price). Besides that, empirical data suggests that a high share price, stated by the upper floor price set by the local partner (government), promotes a high degree of transparency in the IEPsA's establishment. Bank Permata's case describes the situation when the upper floor price set by the state ignited a high degree of transparency during the establishment of the IEPsA.

The research reveals that the dimensions of share price and the degree of the internal relations are the required bases for the gov-

ernment to formulate and implement the strategy to secure the stakeholders' support (involvement) using the matrix of a general strategy to secure stakeholders' support (involvement). The matrix consists of a strategy for maintaining, convincing, persuading, restructuring, balancing, adapting, rectifying, and evolving the stakeholders, based on the stakeholders' position regarding the share price and the degree of the internal relations (Freeman, 1984; Savage et al., 1991).

The result of this research is generic; it can apply to any industries in crisis. Therefore, it might be used to restructure the banking, tourism, service, and manufacturing industries in Greece, Ireland, and Portugal. The respective governments should take over the firms in crisis, then restructure them, while at the same time sharing ownership with multinational companies (by performing an IEPsA), and later re-privatizing the firms. In this situation, restoring public confidence, and that of the potential investors, donor funds, representatives, and society in general, is essential by ascertaining the stakeholders' support related to the firms under restructuration.

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