

Local Politics and Business in Indonesia: A Non-market Strategy Approach

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Abstract

Studies on non-market strategies have traditionally been conducted in developed countries with a particular focus on large firms. Little has been done in this area in developing or emerging economies. This paper investigates how small firms implement non-market strategies in an emerging economy such as Indonesia. Non-market strategies include political actions of business players, political donation, lobbying, philanthropy and business owners turning into politicians themselves. The research aims to reveal the motives of business players behind the implementation of the non-market strategy. In-depth case studies were carried out in two small-firms in the region of South Sulawesi, Indonesia. The study documents the non-market environment in South Sulawesi, chosen as it is one of the main provinces in Indonesia undergoing high economic development. The result of this study echoed previous research that showed that in many developing countries, non-market strategies are implemented due to the low-quality of market-supporting institutions and low levels of law enforcement. The study also found that small firms are not just passive adopters of coercive initiatives. The study offers new insights on non-market strategies and contributes to the meagre literature in this area, particularly in understanding the non-market environment in Indonesia, the role of different forms of cooperation and the implications for dealing with stakeholders in today's business environment in Indonesia.

Keywords: *non-market strategies, small firms, political strategy, emerging economies, Indonesia*

Background

Indonesia has been undergoing series of constitutional and political reforms since 1998. Multi-party and free and fair election systems for central and regional parliaments were introduced in 1999 and followed in 2004 and 2009. It was followed by direct presidential election and head of regions in 2004 and 2009. These reforms significantly changed the Indonesian political landscape and subsequently environment to which business has to adapt.

As a result of political reforms, Indonesia has embraced decentralisation since 1999, where power is distributed to provinces and districts (*kabupaten*) and municipalities (*kota*). In Indonesia, administrative decentralisation was implemented along with political and fiscal decentralisation. The literature on decentralisation mostly described the positive impacts for the country which indicated by the increasing citizen participation, free press, and political equity. However, decentralisation is not without any drawbacks, including negative effects that may it cause to business environment.³

On the positive side, the process of democratisation and transformation in Indonesia has certain constructive outcomes. The report from World Bank shows that Indonesia achieved progress in reforming business regulations in recent years (World-Bank, 2012). In terms of starting a new business, for example, there was a decline in start-up time by 70 per cent during 2006-2011. Other criteria of the report show that achieved improvements have not yet met expectations of businesses. In addition, apart from political instability, Indonesia has made an impressive transition to the democratic society since 1998. As a country with almost reach 240 million people (Indonesia-Statistics, 2010), Indonesia is a huge market for international businesses and plays an important role

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³ Decentralisation in Indonesia is also known as 'regional autonomy' (*otonomi daerah*).

in the world economy. Interestingly, over 50 per cent of the population in Indonesia is under 29 years, and 60 per cent of the population is under the age of 39, with around 52 per cent of the population living in urban areas (BKPM, 2012).

The greater power of local governments implies the complexity that business entities should adapt which may illustrate the negative side of decentralisation. The complexity is caused by several factors but mostly because of the inadequate local government to create clear and expectable regulations which influenced by the weak administrative and technical capacity and the missing of strong legal institutions (Brodjonegoro, 2004). An explosion of rent seeking at the local level is another example of the consequence of decentralisation (Robison & Hadiz, 2012). To make the situation worst, the distribution of power during political and economic transformation since decentralisation is implemented also led to decentralisation of corruption (Basri & Eng, 2004). All of the negative indications lead to the situation where the uncertainty surrounding business at the local level is increasing (Brodjonegoro, 2004).

In such a new environment, firms have to adapt with new patterns of the business-government relationship. Peng and Heath (1996) illustrate that in such uncertain and unstable environment, informal relationships with local authorities is the main option for the firms. Some firms develop a relationship with political parties or government officials. Other builds the relationship through direct involvement into political activities or businessmen themselves becoming politician. Such environment, which display the political situation as the external part of the firm (along with other factors such as social and ecological factor) is called non-market environment (Baron, 1995).

Non-market environment is not totally identical but, rather, it could rely on different institutional conditions (Doh, Lawton, & Rajwani, 2012). Prior researches on this non-market environment mostly conducted in Western developed economies with large companies as the object of the study (Y. Gao, 2006; Peng, 2003). In addition, these studies also have demonstrated the importance of non-market strategies such as political connection to the firms' performance (Xinming Deng, Tian, Li, & Abrar, 2012; Hadjikhani, Thilenius, & Pourmand, 2009; Hillman, 2005; Hillman, Zardkoohi, & Bierman, 1999; Shaffer, 2000). Yet, little is known about non-market environment and the strategic that follows in emerging economies, particularly in Indonesia. Although several studies such as Fisman (2001), Dieleman and Boddewyn (2012), Dieleman and Sachs (2008) have investigated the non-market activities by firms in Indonesia, those studies mainly focus on large firms that close to former president Suharto. In this case, analysing non-market environment in Indonesia faced by small firms connects different branches of non-market topic in the current literature and yielding additional insights into the dynamics of business-government relation. It also helps scholars in strategic management field to consider whether theories and methodologies that have been employed in developed economies are fit with emerging economies given the different context that it has (Wright, Filatotchev, Hoskisson, & Peng, 2005).

In this exploratory study, we address the indicated gaps in the literature by examining non-market environment in Indonesia and how small firms manage to cope with such environment. Specifically, we will investigate three related research questions: (1) how do small firms in South Sulawesi interact with local authorities and non-market environment as a whole, (2) in what ways small firms implement its non-market strategies, and (3) how institutional changes affect the choice of non-market activities by firms.

Business Environment in Indonesia

In the context of Indonesia, with the downfall of President Suharto in May 1998, the institutional environment for business has changed significantly. In Suharto's regime, political connections with Suharto and his family members was very crucial and even used to affect the value of the firms (Fisman, 2001). Most of the firms favoured by Suharto in his time was owned by Chinese tycoons (Dhume, 2004) which enjoyed almost every aspects of government's policies with political fundraising and personal luxury for politicians in return. Suharto's family and its cronies created many companies with little separation between the owners and management.

In the post-Suharto regime, political connections have spread widely and are not merely related to the leader in the central government but are also linked to politicians and lawmakers at the local level. Initially, political and administrative decentralization was introduced through the Law No.22/1999 on Regional Government and this was followed by fiscal decentralization Law

No.25/1999 on Fiscal Balance between the Central Government and the Regions. The government then issued subsequent Laws (Law No. 32/2004 and Law No. 33/2004, respectively) to improve many weaknesses in the previous laws.

According to the law above, central government devote its power and authority to local government, which are both district (*kabupaten*) and municipalities (*kota*). Central government retained only five areas of authority, namely defence and security, monetary and fiscal policy, judicial affairs and religious affairs, and foreign policy. Therefore, area of authority such local budget proposal, recruiting civil servants, local tax and retribution, to name a few, are the area of authority owned by local government.

As mentioned earlier, fiscal decentralization comes with budgetary consequences where local governments have to manage its regional economy, including further seeking the additional revenue. Unfortunately, such policies turned into a major cause for high cost economy since many local governments are trying to boost their revenue and targeted local business entities in the form of taxes and retribution (Brodjonegoro, 2004). In addition, several studies show that firms face high logistic costs due to uncertainty custom clearance regulation, and also additional costs that come from illegal collection or bribery from official (Patunru, McCulloch, & von Luebke, 2009). According to The National Trade and Industry Chamber (KADIN), there are more than three thousand local regulations (*Perda-Peraturan Daerah*) that caused high cost economy or regulations that not-business friendly (KADIN, 2013). In addition, during 2002-2009, there are 406 local regulations that have been cancelled by the central government (Ministry of Home Affairs) since the regulations conflicting with higher-level laws/policies (KEMENDAGRI, 2012).

The regulations also made the policy more complicated and caused uncertainty for investors. Constantly changing in regulations as well as lack of law enforcement becomes a problem for business people since they cannot expect with regard to local regulations and policies. In the past, many firms believe that such situation, including any other 'extra costs' will guarantee them a favourable policy. However, decentralisation has increased the opportunity for local authorities to request illegal payments without assurance for favourable policies. Therefore, Brodjonegoro (2004) found in his study that for potential investors making their investment decisions, local regulations is more important than economic potential.

In such environment, informal relationship with local government and politicians (Peng & Heath, 1996) as well as involving in political deals is the best option for business to increase their chances to survive (Hillman & Hitt, 1999). The importance of relationships built by businesses with governments has been highlighted by a number of studies. For example, LPEM-FEUI (2002) shows that having 'connections' in government structures could be more important than an unofficial payment in Indonesia. Studies by (Dieleman & Boddewyn, 2012; Faccio, 2006, 2010; Fisman, 2001; Hillman, 2005; Wang & Qian, 2011) support the finding that political connections will benefit the firm in terms of financial performance. Other empirical evidences could be seen when Suharto stepped down from his presidency in 1998, where almost all companies that related to Suharto and his family were negatively affected by the situation (Fisman, 2001).

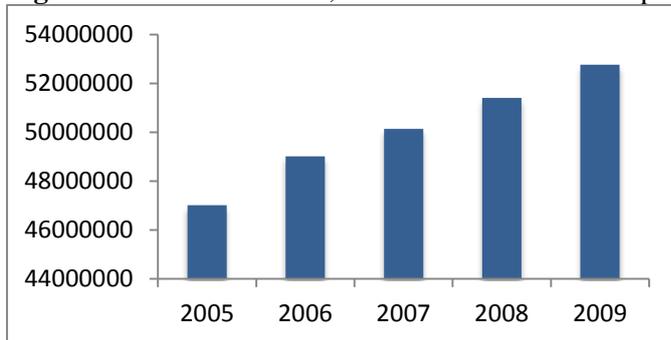
Small and Medium Enterprises in Indonesia

During the financial crisis in 1997-1998 and 2008-2009 micro, small and medium enterprise (*hereafter: SMEs*)⁴ plays an important role in supporting Indonesia economy. The roles of SMEs are not merely through domestic activities but also in providing employment opportunities for more than 96 million workers in 2009. In **Figure 1** below shows the increasing number of total SMEs in Indonesia with 12.2 per cent growth in 2005-2009. In 2013, the latest data from the Ministry of Cooperation and SMEs shows that there are more than 55 million SMEs in Indonesia (KOMPAS, 05/03/2013). SMEs in Indonesia account for almost 97 per cent of all firms in all sectors. The data above indicates the importance influence of SMEs for Indonesian economy, in providing job

⁴ There are several definitions and classifications on SME which vary across institutions and countries. In Indonesia, the general term that is used is Micro, Small, and Medium Enterprise or MSMEs (*Usaha mikro, kecil dan menengah-UMKM*). It is even used as the name of the ministry -"The Ministry of Cooperative and MSMEs". Micro enterprise mostly in the agriculture sector and located at the rural places, while small enterprises mostly in service sector (trade and hotel). Medium enterprise is the smallest part of the MSM in Indonesia.

opportunity, contributing for non-oil and gas export as well potential development in alleviating poverty.

Figure 1 Number of Micro, Small and Medium Enterprises in Indonesia



Source: *The Ministry of Cooperative and MSMEs (2009)*

Enterprise Survey from the World Bank (2009) found that SMEs in Indonesia are more likely to pay a bribe compare to large firms. In addition, the survey also reveals that most of SMEs seem to expect to have to bribe officials to obtain a license. Apart from low level of law enforcement in Indonesia, it also the evidence of overwhelming environment that faced by the SMEs. The overwhelming environment drives an adaptive action from SMEs (Hadjikhani & Ghauri, 2001) which coming from the scarcity of resources they have.

Compared with other leading South-east Asian countries such as Malaysia, Thailand and Singapore, Indonesia has a heavy regulation burden that influence the decision of SMEs to become formal (Mourougane, 2012). This situation indicates less incentive for SMEs to become formal compare to other regions, and the complicated procedures and corrupt local authorities facing by an informal business (Vial, 2011). Being a formal institution does not stop the difficulty for the SME since it has to deal with labour regulation, local tax, workplace safety, and many other regulations as a result of decentralization.

A study by Regional Autonomy Watch (KPPOD) found that small firms are more affected by problematic regulations since many of the regulation caused the increasing of transaction cost. Given the scale of business, small firms also had to pay more taxes and user charges per worker compare to its large counterparts. In addition, many small firm owners believed that local government favoured large firms compare to them, (KPPOD, 2011).

To sum up, SMEs in Indonesia is more affected by over-regulation and regulatory uncertainties than their larger counterparts (Mourougane, 2012). Interestingly, based on Enterprise Survey (2009), political instability is also one of the main constraints of business environment in Indonesia. However, it is worth to note that some improvements have been made through One Stop Service program and the nationwide introduction of a computerised system for company registration. Such programs are expected to simplify business licensing process in Indonesia, particularly for SMEs.

Given the strategic position of SMEs to Indonesia economy with the rising regulatory activity and the complexity surrounding the operations of SMEs in Indonesia, it is important to understand how SMEs interact with government employing non-market activities. Cook and Fox (2000) and Hillman, Keim, and Schuler (2004) argue that firms size along with the resources they have is an important factor in discussing the non-market activities of the firm. Moreover, (Kuncoro, 2006) found that government officials are reluctant to extract bribes from large firms since many of them have protective connection with higher ranking local and national politicians.

South Sulawesi at a Glance

South Sulawesi has been a major province in Eastern part of Indonesia due to its geographical position's at the centre of the archipelago (**Figure 2**). The province is always viewed as a gate to eastern part of Indonesia with Makassar as the capital city. Makassar is also the largest and most developed city in Eastern Indonesia. The new terminal in Sultan Hasanuddin airport serves as a main hub for all flights to Eastern Part of Indonesia, with direct flight daily to Jakarta, Denpasar, Singapore,

and Kuala Lumpur. Makassar historically is major place for trade. In South Sulawesi, dates back to the mid-sixteenth century, Makassar port is the main hub in trading industry not just for the region but also for international trade. It was also served as an important role for the Dutch East India Company (VOC)⁵.

Figure 2 Makassar as the centre point of Indonesia



Source: Turner (2007)

South Sulawesi province administrates 24 regency/municipalities, with 304 districts and 2.993 definitive villages. Total population based on General Allocation Fund (2011) is 8.1 million. South Sulawesi is one of the main producers of food crops in Indonesia, mainly rice. In 2011, Gross Regional Domestic Product (GRDP) of South Sulawesi recorded as IDR 137.389,88 billion (BPS, 2012). GRDP of South Sulawesi is the second highest among sixteen provinces in Eastern part Indonesia below East Kalimantan province which is supported by revenue from mining industries. Up to 2012, agricultural sector is still dominating as the largest value added (25.8 %) followed by trade, hotel and restaurant sector (17.4%) (Statistic, 2012).

An excessive size of Losari waterfront development in the last ten years, and Karebosi as a public space that turn to be a commercial arena, are two of the several examples of how intimate business and government ties in South Sulawesi. The waterfront development of Losari Beach was initiated by the major of the city to make Makassar as a world waterfront city. It is also expected to convert the city into a clean and comfortable so it can also attract tourists. However, in the development process, only a handful of entrepreneurs were involved in the process, most of them are well-known for their personal or political ties with the city/municipal and provincial government leaders.

The reasons for selecting South Sulawesi, particularly Makassar as the research site were twofold. First, the dynamics of business environment in Makassar is generally the same in other big cities in Indonesia since it is one of the fourth main cities in the country. Therefore, it can represent the current situation of the business-government relations and its complexities. During 2008-2012 periods, the province growth rate is also one of the highest in the country (7.64%). In addition, problems that usually occur in the business-government relations in big cities are also common in South Sulawesi.

Anecdotal information from NGOs activists and news reports suggested that business rules in South Sulawesi are often violated in practice. Many public areas were into private or business

⁵ The Dutch East India Company (Dutch: *Vereenigde Oost-Indische Compagnie*-VOC) is a trading company to compete with Portuguese empire in 'spice war'. It was established in 1602. It then changed from being a trading entity to a land-based colonial empire in order to monopolise spice trading. An overview of VOC in Indonesia could be found on UC Berkeley Amerindo Research Website's (<http://amerindo.berkeley.edu/history/indonesia-under-the-voc/>)

premises, as it happened in Losari and Karebosi, which mostly driven predominantly by certain investors⁶. The second reason was practical. Exploring the nature of non-market strategy implemented by firms in Indonesia required access to key policy makers. In Makassar, the existing contacts with local journalists, researchers, and NGOs activists enable us to gain reliable access to business people, local authorities and NGOs activist.

Non-market Strategy

Baron (2010) defines non-market strategy as “a concerted pattern of actions taken in the non-market environment to create value by improving overall performance”. Boddewyn (2003) offers more comprehensive definition for the term ‘non-market environment’ by defining it as the way firm manages the institutional and societal context of the firm. Non-market strategies may take up a variety of specific forms such as building political connections (Faccio, 2006; Fisman, 2001; Hadjikhani, Johanson, & Thilenius, 2008), business owner turning a politician himself (Bunkewanicha & Wiwattanakantang, 2009), and lobbying (Hillman et al., 1999; Lord, 2000; Sadrich & Annavarjulia, 2002). All these strategies can be classified as corporate political strategies (Hillman et al., 2004; Lord, 2000).

Corporate social responsibility (CSR) has also been acknowledged as a part of non-market strategy implemented by firms (Baron, 2001, 2007; Baron & Diermeier, 2007). All forms of non-market strategies (social and political context) are interrelated. (Hillman et al., 2004) argue that a firm with a good history of contributing in social activities will get easy access to and will often be considered by politicians. As a result, firm’s social activities (CSR) become new form of corporate political action (CPA).

The main reason for the firms to implement non-market strategy such as a political strategy is to seek political connections in order to gain valuable resources and enhance their competitive advantage (Faccio, 2006; Fisman, 2001; Hillman et al., 2004; Shaffer, 2000). Bonardi (2011) investigated the effect to the firm’s performance from the situation where the political environment of the firm characterized as a marketplace. It supports argument of Getz (2001) that the motivation behind the involvement of firms in politics is to lobby desirable public policies. As a marketplace, the government will try to obtain support from business to retain their authority and power. On the other hand, firms will try to lobby public policy that favours them in order to reach firms objectives (e.g. increase profit) (Hillman & Keim, 1995).

For the purpose of this study, the business-government relationship will be investigated using two perspectives, namely business network perspective (Hadjikhani & Thilenius, 2005; Hadjikhani et al., 2009) and corporate political action perspective (Bonardi & Keim, 2005; Hillman & Hitt, 1999; Hillman et al., 2004; Wilts, 2006). The two perspectives will be employed to give better understanding of how small firms implement its political strategies in non-market environment in Indonesia. Scholars in both fields have argued that the performance of the firm is influenced by its business networks and connections both with business and non-business actors (political relationship).

Previous research on political connections or non-market strategies generally emphasise the low-quality of market supporting institutions as the main cause that affect this strategy becomes so popular (Zhou, 2012). In addition, many studies noted that the economics of corruption are closely related to the emerging economies, such as Indonesia, where the institutional environments are characterized by business-government collusion interaction and the low level of law enforcement (Schwarz, 1997; Van Klinken, 2009; Wu, 2005). However, several studies argue that even in the advanced economies, political connections are important (Bengtson, Pahlberg, & Pourmand, 2009; Hadjikhani et al., 2009) and even corrupted environment also happen (Wu, 2005) since the firms also actively attempt to influence the decision-making process (X. Deng, Tian, & Abrar, 2010).

Some scholars have previously tried to categorize those non-market activities discussed above with two general categories, namely buffering strategy and bridging strategy, (H. Gao, Tian, & Malcolm, 2008; Mezner & Nigh, 1995; Yuanqiong, Zhilong, & Yun, 2007). The differences of two categories can be seen in **Table 1** below.

⁶ The waterfront development project is expected to be managed by private (investors) once the development process which using taxpayer’s money is finished. However, local parliament refused the proposal from local government because of the unclear mechanism in the leasing proposal.

Table 1. *The significant differences between buffering and bridging*

	Buffering	Bridging
<i>The relationship between non-market strategy and environment</i>	To influence and control its environment or to insulate a firm from external interference.	To adapt to its environment or to meet and exceed external expectations.
<i>Tactics</i>	Contributions to political action committees, lobbying and advocacy advertising, etc.	Adopting the legitimate managerial and technical practices, such as measures for reducing pollution, developing green products, etc.

Source: (Yuanqiong et al., 2007)

In terms of a social strategy, there is a link between competitive advantage and CSR (Porter & Kramer, 2006). In addition, the study by Saiia, Carroll, and Buchholtz (2003) noted that when the firm operate in the good manner where it can also provide benefits to the community, the performance of the firm will also improve. It is understandable since it makes the firm's reputation 'good' from consumers' perspectives. A greater reputation of the firm is an alternative source of the competitive advantage and also a kind of differentiation of the company compared to its competitors. As a result, it can increase consumer loyalty and productivity of its employees, which can affect the financial performance of the firm.

Focus of the previous researches on the relationships between business and authorities has mainly on large firms within the developed countries environment (Y. Gao, 2006) and in relatively stable environments (Peng, 2003; Wright et al., 2005; Yuanqiong et al., 2007) with different perspectives and emphasise. Welch and Wilkinson (2004) and Hadjikhani (2000), for example, used business network perspective, while scholars such as Bonardi and Keim (2005), Hillman et al. (2004), and Keim and Hillman (2008) applied corporate political activities perspective.

Studies on non-market and corporate political activities of Indonesia are rarely to be found, let alone of how non-market strategy implemented by SMEs. Some of the studies only focus on political connectedness (Dieleman & Boddewyn, 2012; Fisman, 2001; Oberholzer-Gee & Leuz, 2006) and negative externalities such as corruption and bribes of the government of Indonesia (Basri & Eng, 2004; Irwan, 1989; Khouw, 2004). Although scholars highlighted the importance of non-market strategy to the firm, there is still an interesting but unknown of how non-market strategies implemented by small firms in Indonesia, particularly in South Sulawesi.

Qualitative Research Strategy

Hoskisson, Hitt, Wan, and Yiu (1999) noted that research in strategic management field is challenging since scholars need to adapt with discontinuous changing and new problems. Therefore, to cope with such situation, research on strategic management field should not be framed within 'a fixed paradigm' (p. 444), and employ different research methods. As a response to this challenge and given the lack of reliable quantitative data for performance measurement purpose, this study employs qualitative methods.

There has been an explosion of qualitative research in the management studies but underrepresented in non-market research. A qualitative approach therefore is used in this study to collect the data and to understand human experiences and discover the essential meaning of the problem situation under the researcher investigation. Cassell, Buehring, Symon, and Johnson (2006) argued that the output of qualitative research 'may be of more relevance and interest to management practitioners than those of traditional methods'. We argue that managers' perception (obtaining from interviews) is considered relevant to answer our research questions. In this context, we adopted an interpretivist approach which focuses on human interpretation and meaning (Yin, 2009) to reach the objectives of the study.

Our research was guided by the case study methodology. Case studies are the preferred strategy to answer "how" and "why" questions. Case study also helps the researcher when it has little control over events, and when the focus is on contemporary phenomena in a real-life context (Yin, 2009). Moreover, case studies are a preferred method of research in the evolving business context and unfolding business and social processes (Eisenhardt, 1989). For the interviews, there are two kinds of

informants for this study, namely internal and external informants (Piekkari, Welch, & Paavilainen, 2009). Internal informants are those related directly to the case, either the owner or directors of the firm while external informants are the informants that are not directly link to the firm such as government officials. Diverse informants are expected to offer diverse perspectives (Eisenhardt & Graebner, 2007) which may help researchers to validate the information received from informants.

We argue that interviewing only one respondent for each firm was relatively acceptable because each firm has only a few key individuals involved in strategic decision making. Moreover, our respondents explained that only the owner or the director make strategic decision, particularly when it comes to the decisions such as building political connection and contributing in political donation.

Unit of Analysis

We avoid using a large number of cases for this study since we realize the challenge in term of result reporting. In addition, we argue that the logic of statistical sampling thinking should not drive the qualitative study (Piekkari et al., 2009). In addition, small number of cases is appropriately meeting our objective for this study, which should be the main reason in choosing research process.

Identifying the firm that perceived implement non-market strategy is difficult since the firms might hide their political connections as much as possible (Imai, 2006), as well as avoiding to expose its lobby activities. To ensure that participating firm would be rich in data about non-market strategy, criterion sampling tactics were used. It is expected that this scenario will help us makes objective decisions. Based on the literature, we decide to use the criterion samplings:

1. Case firms satisfied the grounded definition of 'smallness'. The definition of 'small' used in this study based on the Law No. 20/2008 on Micro, Small and Medium enterprise.⁷
2. Case firms were located in Makassar as a capital city of South Sulawesi so it can be easily reach within daily traveling distance.
3. Case firms had been operating for a minimum five years.
4. Case firms' owner/director/founder is an active politician or a government official or has a close relation to a politician or party.
5. Case firms reflect government sales dependency.

Based on these sampling criteria, two firms have been identified as the objects of the study. As agreed between the researcher and the interviewees, all the information which may directly link to the firm will be kept as anonym. Therefore, for the purpose of this study, the firm will be identified as firm "A" and firm "B".

Firm "A" is an advertising agency which main operation is providing an outdoor space for advertising product. The firm is one of the main advertising companies in South Sulawesi. It is important to note, that the firm is not a production house which produce the advertising but merely a firm that provide space for the advertisement. The firm has been operating for more than 30 years, experiencing different kinds of the business environment in Indonesia. As an advertising firm, "A" is perceived implementing non-market strategy since the industry relies on the government regulation, particularly at the local level. The industry also has been targeted as one of the main inputs for local government revenue.

The second firm is "B", a vendor which main operations are providing goods, works and services for the government. As a small firm, "B" usually fulfils the contracts less than IDR 200 million (US\$ 20,000), where the government official can grant the contract without open tender.

⁷ Law No. 20/ 2008 on Micro, Small and Medium Enterprise (UMKM) set out micro, small and medium enterprise. The definition in the law is used by the Ministry of SMEs and Co-operatives as well as the Bank of Indonesia. Micro firms are defined as enterprises with net assets less than IDR 50 million (land and buildings excluded) or enterprises which have less than IDR 300 million total annual sales. Small firms are enterprises with net assets from IDR 50 million to IDR 500 million (land and buildings excluded) or with total annual sales from IDR 300 million to IDR 2.5 billion. Medium-sized firms are those with net assets from IDR 500 million to IDR 10 billion (land and buildings excluded) or with total annual sales from IDR 2.5 to IDR 50 billion. In terms of number of employees: micro firm is less than 5 employees, 5-19 employees categorised as small while 20-99 employees is a medium firm.

However, “B” also experiencing winning tender more than IDR 200 million but less than IDR 500 million.

The two firms above were chosen give broader perspective for the non-market environment. It also an effort to see whether firms in specific industries is more active in implementing non-market strategy than in others. Advertising firm is identified implementing non-market strategy since the industry is highly regulated and engage with all levels of authorities. While for vendor firm, based on the literature, the firm which rely on government sales is likely to implement non-market strategies (Lux, Crook, & Woehr, 2011).

Apart from the two businesses, the empirical journey proceeded with other business, social and political actors in South Sulawesi to get their perspective on the process. We interviewed three different respondents, each from Local Tax and Revenue Office (*Dispenda*) Makassar, chairman of Indonesian Employer Association (APINDO), and a director of KoPEL, an NGO that concern to the development and budgeting process in South Sulawesi. The interviewees were identified as relevant and important for this study since they may know better the context of the study.

In total, 5 people were interviewed, which each interview lasted up to 90 minutes and was recorded and transcribed. Two informants from two firms were reluctant to be named and therefore will be written anonymous while other three interviewees were keen to be named. All interviews was conducted in Bahasa Indonesia and then translated into English. In order to ensure that the translation was correct, we double checked the translation result with two research colleagues. All interviews resulting in a total of 90 pages of text. All interviews in this study were conducted using a semi structured approach. Notes were taken during the interview. Interview data was complemented with a range of secondary data (statistics, news reports, web page information) that publicly available to help us ensure the reliability and construct validity and served as a means of triangulation (Gibbert, Ruigrok, & Wicki, 2008; Yin, 2009).

Case Presentation

A. Advertising Firm

Outdoor advertising (*hereafter*: advertising) sector is one of the main revenue sources for many local governments in Indonesia, including Makassar. According to the Local Regulation of Makassar City No. 3/2010, the format of advertising that will be taxed is billboards, street furniture, and any other printed format advertising including digital format which is used for commercial purposes. It also includes the advertisement material that placed on anything moves such as taxis and buses. Every year, the contribution from the sector increased rapidly. In 2009 for example, the advertising sector contributed more than IDR 7 billion (US\$ 705,290), and in 2011 reaches almost IDR 16.93 billion. The contribution is counted more than 15 per cent from total revenue of Makassar city. For the 2013 financial year, the local government is expecting to reach IDR 29 billion from advertising alone. In 2012, there are 240 advertising spots (land and buildings) managed by Local Tax and Revenue Office (*Dispenda*) Makassar and leased to the advertising agencies. 200 of the spots are used for billboards which also become the main contributor in advertising tax. Apart from spots that owned by the local government, all outdoor advertising owned by individuals or commercial entities are also taxed by the city government. Given the strategic position of the advertising sector, local government tried to boost the revenue from this sector.

However, as the target for local revenue many firms in advertising sector found the regulatory environment in this sector is complex and confusing. Local bills (*Perda*) that related to the sector actually have regulated many things but confusing when implemented by the government official. In addition, the inter-jurisdictional is unclear since the coordination between government tiers (local, province, and national level) is poor and time consuming.

According to Ministerial Regulation of Public Works No 10/2010, advertising firms are not allowed to put their advertisement crosswise (*iklan bando*) on the national highway (national routes). In May 2013, the National Road Agency insisted that all billboards that have already been built have to be removed since most of them did not comply with the safety regulation. However, local government of Makassar City refused to do so since advertising is one of Makassar’s main local revenues, which is supported by the advertising firms association. Local tax and revenue office of Makassar city argued that the central government did not socialise comprehensively the laws before implementing it. In addition, central government should consider the potential loss of revenue that

will affect the development process in Makassar. Meanwhile, advertising firms association argued that they have already signed a long-term contract with local governments and had a license to do so, therefore the central government cannot terminate the contract.

Such uncertainty is also caused by the unequal access to the information which leads to the unequal treatment received by the firm. The interviewee from firm A described:

“You see next to PLTU (Steam power plant) at Tello. It is one of several places that it is prohibited for us to build a billboard there. But as you can see now, there is a big billboard there. I heard that the firm who owned the billboard is a new one but close to the top official of the city”. [Director, Firm A —Interview 6 February 2013]

There are seven administrative requirements to obtain a business licence for a new spot for billboard. Apart from general operation licenses (SIUP), copy of ID, copy of property tax (PBB), a firm also needs to obtain a recommendation from the low level of local authorities (*Lurah* and *Camat*), and also from National Road Administrative Agencies (*Balai Jalan Nasional*). According to the rules, it takes six days in total for obtaining new license. However, according to the interviewee, sometimes the licence procedure takes more than a month. For a faster service, the firm needs to pay an illegal payment, which sometimes “very high”. The illegal payment should be paid to informal intermediaries, and in most cases these intermediaries are government officials acting outside their normal duties.

“I need to bribe the front office man so he can prioritise my proposal and give it the head of the local tax office for approval. If I don’t bribe him, he just put my proposal on the table, not even try to look and read it”.

Once the proposal is approved, he then needs to pay legal retribution based on the size of the proposed billboard and the location. If the billboard will be located on the main street, the payment is higher than other location. However, apart from unclear payment assessment, the firm also need to tackle ‘informal staff’, individuals who closed with the mayor or vice mayor of the city. Usually, these individuals are well connected with mayor or vice mayor of the city. They offer handling all administrative procedures to the firm, which to some extent caused another administrative red tape.

“Usually, this person offer to handle all the administrative processes once we had an approval from the office. The person then asked us to pay them otherwise they will recommend the mayor or vice mayor to review the approval we got. Once we paid, we can proceed to the production of billboard”. [Interview 5 February 2013]

The worst situation may occur when different individuals from different sides (either from major or vice mayor of the city) both offer at the same time. It is confusing for the advertising firm since the firm needs to deal with two different parts⁸. In this situation, having connection with the official in the revenue office will help the firm to navigate the cumbersome of administrative process. Uncertainty in regulation and officials who handled the administration process makes the firm proceed to build the billboard without obtaining the license. The pressure from clients is always made as a reason. The firm arrange the permit afterward. Another case, the firm had built a billboard in the area that prohibited for commercial outdoor advertisement. However, the local office finally approved if the firm pay some discretionary fees to intermediaries.

“In 2011, one of my clients requested to have their advertisement in Sudirman Street, which according to the local bill (Perda) is prohibited area for billboard. But we finally can accomplish the job when we pay IDR 50 million (US\$ 4,900) to one of the

⁸ The Mayor and Vice Mayor of the city is head of Democratic Party (Provincial level) and Golkar Party (District level), respectively. The two parties are two leading parties both in South Sulawesi province and Makassar city. For the next mayor election (September 2013), incumbent mayor nominate candidate from his party while the vice running for the mayor position. This situation is used by both teams for fund raising which caused problems for all business people.

major's relative. He is actually not an official staff, but is close to the major of the city”.

Maintaining good relationships with the officials at the local revenue office is important. The firm usually provides annual ‘Holy day allowance’ (*Tunjangan hari raya*) which paid every *Idul Fitri*⁹ for all front and administrative staffs. This is important since the staffs manage and administrate many papers, not just from the advertising firms. For the higher level staffs, the firm usually does not provide on particular occasion such the Holy day allowance. Instead, the firm must ready with ‘unusual demands’ from the higher level staffs for transportation and accommodation expense when they have official visit outside the city. Albeit the government is allocated special budget for such expenses, the firm remain the targeted object of the officials to gain additional income. By doing so,

“They will remember you and will be glad to help you if you generous to them. It is like a form of debt to them. For us, apart from transactional cost, we see it as our investment”.

When asked if this formula employed by other firms in the same industry, the interviewee said,

“I believe other firms do the same. I know this because we usually meet and share experience. We usually meet to discuss about the regulation and how to deal with this local bills. We also share our experience in handling particular officials.”

In implementing such strategies, the firm prefer to perform individual approach based on its own interest. The role of the association in the industry is only for all matters that signify the industry generally such as representing members in discussion with the local government and the local parliament. It is understandable since several players in the industry are related to the politicians or even owned by some politicians or its relatives.

Having connection with the politicians can help the firm. However, the case of the informant for this study does not have any connection with the politician or its relatives. The informant shared the experience that politicians may come and go and therefore having connection with certain politicians is not a sustainable way for the firm. Instead, the firm prefer to have a good knowledge about the politicians, the environment and the issues in the industry are the main points. To build this relationship, the firm usually allow a particular politician, especially from the ruling and big parties in local politics to use its asset such as billboard. In the last years’ governor election, many of the firm’s assets were used by governor candidates. The candidates use the billboard for a political campaign and the firm let them use it if there is no commercial material from client on the billboard. However, the firms and the candidates have an informal agreement that once the firm have to put client’s commercial material, the candidates will remove its material campaign.

Apart from the myriad of administrative desks and articlework, the firm also need to deal with other challenges. Once the business licence has been obtained and the billboard has been built, the firm need to pay an informal “security expense” to several people around the area of the billboard. This expense is not an optional for the firm since the government official refuse to take any responsibility regarding this matter.

Regarding social activities, the firm believe that social activities that have been conducted by the firm based on the theological believe of the owner of the firm. The firm provide social donation to orphans, and poor people around the area of the firm. The firm also involved in any social activities, providing printed material for occasional events such as Independence Day, or other national days.

Meanwhile, an official at the revenue office unsurprisingly refuse to comment on the bribery issue. However, he is aware of the situation, including the uncertainty caused by the regulations that affect the firm in the sector.

“I myself never asked for an illegal payment. I always refuse when the firm makes an approach for that special purpose, let alone when they try to bribe me”. [Trisnode,

⁹ *Idul Fitri* is the celebratory period ending the Muslim fasting month. It is a two days public holiday in Indonesia.

He is also aware that some of its officials, particularly in front and administrative office are seasonal staffs or not public servants (PNS). Therefore, “it may an opportunity for them to get additional income since they are not paid by the government as any other public servants”, explained the informants from local revenue office. As seasonal staffs, they do not get pension fund or any other allowances.

The government official emphasise that the city government has made some progress with the use of technology to minimise the interaction between staff and firms as a client in the process of obtaining business license. Furthermore, as a higher level official, he frequently approached both by firms directly or through politicians related to the firms for particular matter. However, he stresses that since the office is always targeted by social organizations, government watch organizations, and media, the opportunity for ‘illegal interaction’ have decreased rapidly.

B. Government Vendor

One of the objectives of the decentralization in Indonesia is to distribute financial budgeting and authorities to the local government. As a result of development process and positive economic trend, government expenditures at the local level, particularly for goods, works and service are increased every year (**table 2**). In 2012, the province government expenditure for procurement is IDR 853.7 billion (about US\$ 89.86 million), approximately 18 per cent of the total provincial budget. While in Makassar, IDR 532.7 billion (US\$ 53.68 million) was used for public procurement, approximately 30 per cent of total budget of Makassar. The considerable amount of government’s expenditure shows a positive sign for many firms who see the opportunity to become government vendors. However, decentralization leads to the complexity and numbers of stakeholders involved in procurement utilizing public funds.

Table 2 Government expenditure on goods and service (*IDR, Millions*)

Year	South Sulawesi Province		City of Makassar	
	<i>Public Procurement</i>	<i>Total Expenditure</i>	<i>Public Procurement</i>	<i>Total Expenditure</i>
2008	457,473	2,141,618	233,863	1,144,453
2009	352,037	2,195,837	301,171	1,240,798
2010	527,003	2,390,118	329,306	1,368,651
2011	767,754	3,358,185	439,833	1,881,813
2012	853,738	4,739,391	532,772	1,766,424

Source: South Sulawesi Budget (APBD) and Makassar Budget (APBD), 2013

Historically, procurement system in Indonesia has been formally strengthened since 1998. This process was implemented through various institutional-organizational reform initiatives. However, anecdotally public procurement remains problematic due to legal inconsistencies, weak state capacity and insufficient enforcement of this regulatory framework.

The current Presidential Decree (*Peraturan presiden/Perpres*) No. 70/2012 on Public Goods and Services Procurement was adopted in 2012 as the second amendment and replaced the Presidential Decree No. 54/2010 and No. 35/2011. The amendment streamlined many of the stipulations outlined in the previous decree which can boost the development process at all levels. It also introduced the electronic system (e-procurement) to both national and sub-national level, which is expected to increase transparency and create healthy investment environment. Under the new regulatory framework, all government units are required to announce their procurement plans, tender invitations and other related information in designated national and local newspapers and on procurement website. The new regulation also redefined direct awards/sole sourcing (*penunjukan langsung*) and simple bidding (*pelelangan sederhana*) which ease the procurement process. However, the new regulation implicates adaptation from firms, particularly in the matter of e-procurement.

“Personally I welcome the new regulations that have simplified procurement process. However, the regulation is very complex for me and it takes time for me to learn about it”. [Director Firm B - Interview 22 February 2013]

Lack of understanding regarding the new regulation makes the vendors rely on local procurement bureaucrats to help them to navigate the cumbersome of administrative process. New regulation introduces the new electronic procurement system that some vendors found it difficult to be adapted. Indonesian Employers Association (APINDO) chapter South Sulawesi province reported that more than 20 per cent firms do not understand electronic procurement system (Tribun-timur, 27/05/2013). New regulation also did not followed with new attitude, neither from the local procurement bureaucrats nor the bidders. According to the interviewee from firm B, many local procurement bureaucrats approached the vendors to offer their help in filling out complex procurement documents. In doing so, the local procurement bureaucrats demand payment in return.

“It is simply a supply and demand situation. We need to win the bid more often so we can get profit. On the other hand, there are official staffs that can help us and for their help we need to pay them”. [Director, Firm B]

Despite that the new regulation requires the signing of integrity pacts (both from government and firm side), the interviewee realized that apart from complexity, the new regulation has not yet eliminate the corruption and collusion. A study by The Independent Procurement Control Board (*Lembaga Pemantau Independen Pengadaan Barang dan Jasa*) noted that in 2012, in Makassar, only 40 per cent of total procurement used e-procurement information system. The study is also shown that some procurement items won by the same firms, which caused an unhealthy business environment (Tribun-timur, 20/06/2013).

Having political connection(s) in this situation is important since local politics remained elitist in nature. In the case of last governor election,

“Rumour said that all three candidates spend staggering amounts of cash on vote-buying. Last time I heard that campaign expenses have reached such heights that caused us trouble here as a local vendor. It because the candidates tried to affiliate with construction companies and developers and as small vendors, we could not compete with them on the bid”. [Director, Firm B]

In addition, insufficient funds for many politicians and local political parties, made the procurement process as another way to get financial resource.

Corrupt behaviour the procurement process has saved the firm since its operations in the early 1980s. However, since politicians may come and go, it is hard to maintain such network when many competitors also do the same thing. In addition, many small vendors are actually owned by big vendors to mask their operations and bid on their behalf. Some of the vendors even owned the executive or legislative members (using its family or relative's name); although according to regulation they are not allowed to have business during their period. Also, some independent construction enterprises “rent” themselves out to the highest bidder prior to a tender announcement and then bid on behalf of the buyer. It leads to a concentration in the market.

Large firms have direct access to government top officials while for the small firms have to deal with lower level of government official and faced red type of bureaucracy. As a result, many public tenders are regularly manipulated in favour of firms with close ties to the government officials or legislative members. This emphasises the importance of political connection in this industry.

One way to seek and maintain the political connection according to the interviewee is to join business association. The Indonesian National Construction Association (*GAPENSI*), Indonesian Chamber of Commerce (*KADIN*), and Indonesian Employer Association (*APINDO*) are three main business associations that played important roles in procurement system in Indonesia. In the past, *GAPENSI* and *KADIN* were allowed to accredit firms in order to bid for government contracts. Involving in business association is such an informal guarantee since most of procurement in construction items required recommendations from the association. The interviewee also described

that in that business association he can acquire strategic information and even ‘trade’ among them for particular procurement items.

An NGO activist who interviewed for this study confirmed the finding. According to him, it is difficult to obtain information on procurement, particularly if the firms do not have access to the government office.

“As you can see, those bidders who win the contract are always the same for many years. The procurement process sometimes manipulated by them, so only bidders who closed to the municipal and provincial officers can get the information. They circulate the information only within their group”. [Syamsuddin, Director of Legislative Committee Watch/KoPEL – Interview 18 March 2013].

The chance for wrongdoings in procurement system is open since the regulation allows the local government to procure smaller value goods and services. Although the spirit of such method is to ease the procurement process and mechanism, but the fact that such situation is benefited only small numbers of firms and local authorities. Likewise, there is no clear punishment stated in the regulation for those parts involved in wrongdoing.

Meanwhile, from business association perspective, chairman of APINDO confirmed that such behaviour remains occur in the procurement process. However, he insists that the number and volume are continuously decreased compare to previously.

“I did not say that the rule is not violated in practice, but since the new rules are more comprehensive and limited the interaction between bidder and government official, it becomes more difficult for anyone to violate the rules. All bidding process also conducted electronically and every bidder entitled to involve,”
[La Tunreng, Chairman of APINDO South Sulawesi — Interview 12 February 2013]

In term of unhealthy competition in procurement environment, the chairman of APINDO admitted that such situation remains occur. However, he refused that firms are the only caused for such corrupt and collusion circumstances. Discrepancies in national and local regulations regarding the procurement system have caused firms to adjust, with to some extent violate the rule.

“There are no general standards that are used widely for all government tiers. Standard bidding Document (SBD) for example, all government levels have their own standard and makes us confused to adjust different standard. Consistency is the main problem of our government, followed by the low level of law enforcement”. [La Tunreng — APINDO]

Discussion

Having outlined the characteristic of non-market environment in two industries above including the political and institutional factors that underpin the condition, this section discusses the theoretical perspective on this case. Just as mentioned above, Business-government relationship is a key aspect of non-market environment. Therefore, the firm needs to think beyond traditional market strategy or action to respond competitor’s attack, but also political strategy or action to make a response. As described by (Fan, Wei, & Xu, 2011) that generally the government have great influence to the firm in the emerging economies, the two firms above also shows that the government is one of the most important stakeholders.

Two cases above showed how non-market strategies implemented by firms predominantly for rent-seeking purposes. The two firms above are embedded within the social environment (Hillman & Hitt, 1999), which the environment is characterized by public and private expropriation hazards. Although it is understood that there is a dependency relationship in the resources and management between firm and government, firm A for example, doesn’t always accept environment passively. And on the contrary, the firm could adapt, operate, collaborate and even change the dependency

relationship with its environment. Political activities implemented by firm therefore served as a substitute for formal protection given the insufficient formal policies from the government.

Building on (Hillman et al., 2004; Lord, 2000) works', the two cases provide different context where each firm implemented political strategy to influence political decisions and policies. Specific forms of political strategy they implemented are, campaign contribution, using informal personal network with government official, forming collective organization. Each of the specific types of political strategy is highly context-dependant. Governor election, for example, has shape different context for the firm regarding its political strategies.

Firm's political strategy implemented by firms in both cases can be reflected in **Table 3** below. From the two cases we conclude that firm's performance is one way influenced by direct relationship between political connections that the firm has. Direct effect implies that the political connection is affected firm's performance directly on business as a unit individually. This direct effect particularly influence firm B, as a government vendor. As (Hillman et al., 1999) explained that close relationship with government officials can provide firms with unique information about governmental processes that are often otherwise difficult and expensive to obtain. Another function is indirect effect which mediated through business relationship. Indirect effect refers to the firm's performance which comes from the policy to the industry, and the firm as the part of the industry is also affected. Indirect effect particularly affected the performance of firm A, in advertising industry.

Although consensus exists amongst scholars that firm engage in political activities when such activities generate economic returns (Faccio, 2006; Fisman, 2001; Hillman et al., 2004), there are potential explanations for why two cases here perceived political opportunities as attractive/necessary. First, firms may engage in political activities simply to enter into 'economic barter' with the government, or the firm which rely on government sales is likely implement non-market strategies (Lux et al., 2011). Firm 'B' (vendor) which involve in public procurement is the good example of the argument. Implementing political strategy is important for the firm to get contract from the government.

Second, political strategy is a way to obtain/maintain essential resources from the government. Third, firms can seek to alter the competitive context through influencing beneficial institutional change. By involving in the process of the policy making, firm 'A' (advertising firm) can acquire knowledge and manage the issue regarding the rules. The firm even can negotiate the process although based on the rules was not permitted. As a result, the firm can maintain the current competitive context owned by the firm. Finally, firms may engage in political activities to encourage third party enforcement of contracts in order to reduce exchange uncertainty.

Employing the political AAR (actors-activities-resources) framework (Welch & Wilkinson, 2004), both cases also reflect the implementation of non-market strategy which can be formulated into four forms of political embeddedness. They are political institutions, political actors, the political activities of firms and political resources. Political institutions lead to the set of business network, which means that political change triggered the business network. The change can come in the form of ideological as well as social values that embedded in the regulations and rules. In term of political actors, it includes government official, members of parliaments, political parties, interest groups and media. In the case of firm A, it shows that the director is trying to create a non-market capital (allowing the candidate to use its billboard) which is expected to be exploited in the future. This study also found that according to the case of firm 'B', business actors as well as political actors sometimes occupied 'mixed positions' in the context of network. In other words, political actors occasionally took economic positions while business actors occupied policy-making roles.

When using two categories of non-market strategy by Meznar and Nigh (1995), Blumentritt (2003) and Yuanqiong et al. (2007) we found that in advertising industry 'buffering' strategy is preferred since the context of the industry is very dynamics. Limited space, high demand from clients, and competition to get the best spot makes the firm actively insulate the firm's interest. Why did buffering popular for the advertising industry? In the interview, we found that the aim for firm 'A' implementing buffering strategy is not for money but for preferential local government policies. In the other hand, firm 'B' as a small vendor employed bridging strategy, where most of its strategy adapts to changing environment and to meet external expectations. In addition, administrative regulation in this industry is more and more regulated. However, note should be taken that buffering and bridging

were not mutually exclusive since both of the cases actually implemented the strategies in complemented way despite the differences.

In term of social performance, two cases above shows that the values and culture of these firms, as well as religion value, therefore, presumably affect how the firms implemented their social strategies. Many social activities of the firm, particularly in philanthropic or what so called ‘CSR’ is coming from the personal interest of the leader or owner of the firm. Therefore, the interview result shows that there is no direct effect of implementing social strategy to the financial performance of the firm. The main reason for implementing social strategies is only for sustaining good relationship with other stakeholder, particularly in the area of firm’s operation.

From the study also the researcher found that pursuing non-market opportunities also has two disadvantages for the firms. First, that non-market, particularly political strategy is often violating informal institutions. Rent-seeking and red type bureaucracy still dominated business environment in South Sulawesi.

Table 3 Non-market Strategies from two Firms

	Firm A (Advertising)	Firm B (Vendor)
Approach to political strategy	<i>Relational</i>	<i>Transactional/ or relational</i>
Level of participation	<i>Mainly individual</i>	<i>Individual and/or collective</i>
Firm political strategies and tactics	<i>Financial incentive strategy Non-financial contribution Paid travel Lobbying</i>	<i>Financial incentive strategy Lobbying Personal service (hiring relatives of government officials)</i>
Social strategies tactics	<i>Philanthropy</i>	<i>Philanthropy</i>

Conclusion, Limitations and Further Research

The two case studies in this research confirmed the importance of non-market strategy for the firms. Non-market strategy is important since in the emerging economy the firm needs to think beyond market strategy. The results manifest the impact of political effect on business performance, although direct impact should be measured for the best result. The main aims for the firms implementing non-market strategy is to sustain existing market and to seek another opportunities through public policy. This study has also identified the types of non-market strategies implemented by firms and found the relationship with the performance of the firm.

In common with any research project, this study was constrained by the methods chosen. These constraints can be identified in two main areas. First constraint is that the grounding understanding of small firms and its political and institutional environment is not properly covered. This kind of study required raw data which supported by experience and perceptions from more players in the industry. Therefore, it is possible that despite the sampling strategy and tactics employed, respondents were not always truthful since the measurement indicators are reflective and based on the respondents impressions and not on factual variables.

Second, the extent to which the findings from this study can be generated to the wider population, particularly to give broader picture of non-market environment in South Sulawesi and Indonesia as a whole. As the aim of this study was to generate a substantive understanding rather than to test the validity and reliability of a hypothesis deduced from previous research, the findings to emerge from this study cannot be generalised to the wider population of small firms in South Sulawesi.

Therefore, it would be interest to do further case studies on different levels of the firm and look for other elements besides those identified in this study. Another interesting angle would be to study whether firms in specific industries are more active in implementing non-market strategy than in others with adding more industries besides two industries in this study. It is because non-market strategy initiatives may vary dramatically from one industry to another, particularly for the industry which is heavily regulated.

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