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MULTISTRADA AGRO INTERNATIONAL: NON-MARKET STRATEGY

IN INDONESIA

Marleen Dieleman wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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In 2016, Kartika Antono, managing director of PT. Multistrada Agro International (Multistrada Agro), an Indonesian industrial forestry firm, sat in her Jakarta office listening reluctantly to her estate manager, who had called her from East Kalimantan province. In a panic, he reported that “rude people” had entered the company premises accompanied by armed security guards and were looking for her. He sounded scared and asked for instructions. The underlying problem was a local land conflict pitting powerful local interests against each other. Antono knew that unless she managed to work with local stakeholders she would never be able to successfully operate large-scale rubber plantations. How should she handle this latest personal threat? What tactics could she use to deal with a variety of stakeholders with divergent interests?

background

PT. Multistrada Arah Sarana Tbk (MASA), established in 1988, was Indonesia’s second-largest tire manufacturer (see Exhibit 1). The company was listed on the Indonesia Stock Exchange in 2005, and experienced rapid growth thereafter. It manufactured car and motorcycle tires for both domestic and export markets. MASA was among the top tire manufacturing companies in Indonesia.

One of the main operational risks identified by MASA’s directors was the availability of raw material, so in 2011, PT. Multistrada Agro International was established as a subsidiary to develop rubber plantations. Kartika Antono, a seasoned executive with experience in both plantations and automotive businesses, was recruited to manage the new business (see Exhibit 2). Under her guidance, the company acquired licences to plant 128,000 hectares with rubber, and was aiming for a total of 500,000 hectares under the industrial forestry scheme, mostly in remote Indonesian provinces.

Rubber was traditionally an important crop in much of Southeast Asia, including in Thailand, Malaysia, and Indonesia. About 70 per cent of the world’s natural rubber production was used for tires. Experts estimated that 85 per cent of rubber production in Indonesia once came from independent smallholders.[[1]](#footnote-1) The volatile price of rubber drove many farmers away from growing the crop, disrupting the supply for tire companies; this prompted some tire manufacturers to invest in large-scale rubber plantations with employees, rather than relying on independent farmers.

All large-scale plantations in Indonesia faced common problems: discrepancies between regulations of the central and local governments; lack of enforcement and limited protection of property rights; and a host of formal and informal powerful groups with divergent interests at both the local and provincial levels, not all of which used legal or professional means to meet their interests. The arrival of a plantation company often induced or aggravated local conflicts that pitted the different rival sources of power against each other. Consequently, most Indonesian plantations were protected by armed guards, often the military. However, as Antono remarked, “The best guards are the villagers, if we can educate them well and ensure [their] welfare. The villagers are the fence.”

The largest Indonesian plantations were involved in palm oil and pulp and paper. Both sectors came under pressure from non-governmental organizations (NGOs) to improve practices in terms of environmental sustainability and management of local stakeholders. The rubber industry did not witness such development, as most rubber (was thus far) produced by smallholders.

Multistrada Agro’s rubber plantation in East Kalimantan

Multistrada Agro acquired permits for industrial forestry from the central government Ministry of Forestry. These permits allowed industrial forestry activities in designated degraded forest areas owned by the government for a period of 60 years, with an option to renew for another 30 years. Due to capital restrictions, this large area would be planted in stages. The pilot project was a 47,000-hectare plot in East Kalimantan. The initial phases—including preparation, land clearing, and planting—were the most capital intensive and the most prone to conflicts. It took five years for rubber trees to mature and produce the first yield.

Antono positioned herself nationally as a pioneer in the forestry area, and kept in close contact with the ministry. She became the chief editor of Indonesia’s leading forestry business magazine, which carried articles on various types of agroforestry. Furthermore, she sat on a council that advised the government on new laws, which allowed her to communicate with forestry officials from the ministry on a regular basis. To facilitate this work, she had a small showroom and office within the ministry.

Although there were officially no inhabitants on the land for which Multistrada Agro had obtained permits, in practice, about 100 people lived within the boundaries of the area: 3,000 lived in surrounding villages on the southern side, and another 4,000–5,000 lived to the north. Most villagers were small-scale farmers who owned poultry or other animals, or were (illegal) loggers selling wood from the forest. They were typically poor and had limited education. Access to the land was often achieved by boat, because infrastructure was poor.

Some villagers (both locals and people from outside the area) claimed to be the rightful owners of the land, and invoked “*adat* law” (customary law) to claim that the forest belonged to their ancestors, although they did not have legally valid proof of such claims. Antono stated that many villagers simply did not understand the concept of land ownership, adding that “the law is clear, but enforcement is another issue.” Those who claimed ancestral land rights sometimes demanded compensation from the company (e.g., in the form of cows, motorcycles, or money), and these claims were often accompanied by death threats. Antono described the situation as “messy.” One day she was dropped in the forest by a boat skipper who simply disappeared; he had been threatened and fled. Antono eventually managed to secure the help of villagers to get back. With little protection and law enforcement in the area, the company needed to find other ways to deal with threats.

Surrounding the pilot plot were other plantations, mostly palm oil plantations. These were considered “agribusiness” rather than industrial forest, and came under a different licensing regime. However, Antono had discovered a 3,750-hectare Malaysian-owned palm oil plantation inside the 47,000 hectares of land for which she had acquired licences. The plantation was operating under a local government licence. In addition, the owner had invested in a small airport on the plot that the company occupied.

Although Multistrada Agro held licences from the central government, the Malaysian palm oil company and its local partner had a licence from the local authorities, and the regent (*bupati*) of the area refused to cancel the palm oil company’s licence. This was a problem because the bupati carried weight in the area and had administrative powers. The palm oil plantation employed some 200 people in the area, mostly from one village in which the local authorities were close to the palm oil company and against Multistrada Agro.

Regulations required the companies to place signs indicating the boundaries of their land—some 140 kilometres of boundary in Multistrada Agro’s case. Officials from the Ministry of Forestry had come to the area with maps, but the local authorities had refused to sign off on parts of the boundary, making it impossible for the company to begin planting in the northern part of the plot. Accordingly, planting commenced only in the southern part.

Plantations required many workers, who could be drawn from either the local population or other parts of the country. If the latter option was chosen, it was likely to create conflict at the local level. Yet working with the local people was not always easy. Antono trained the villagers extensively in tasks such as filling polybags with rubber seedlings. She commented that productivity was about six times lower than on Indonesia’s main island, Java, and that the attitude of the people was not always disciplined. Of the 600 local people trained, fewer than 400 worked for the company. After scaling up the plantation, Antono needed 10,000 workers. This made her the largest employer in the area, and she needed to recruit labour from outside. As such, the company became a major player in the delicate local balance of power.

Handling stakeholders at the local level

Antono carefully mapped out the groups at the local level, identifying approximately 19 different powerful groups and categorizing them as formal or informal. The formal groups comprised government administration at the provincial and local levels, including a regional head (bupati), area head (*camat*), village heads (*kepala desa*), and other local power holders (see Exhibit 3); most Indonesian villages had this administrative structure. In addition to government entities, the groups included local religious leaders ( who carried substantial weight at the local level), the local police, NGOs, political parties, and vigilante groups. One vigilante group was the notorious Pemuda Pancasila, which was feared for its thuggish practices, and often hired by other groups to spread threats. Antono had already met with this group in her plantation area. She told the following story.

One day I was doing socialization in one village in the north of our land in East Kalimantan. We were on a stage with the army head, the police head, the head of the village, and the village secretary, as well as a female consultant. We opened the discussion and suddenly about 20 people came in, and they were very rude. I saw they had Pemuda Pancasila attributes. So, I took the microphone and said, “Thank you for coming, Pemuda Pancasila members.” They were confused, because they were probably ordered by someone to make the meeting messy, and I had changed the scenario. I told them, “You are my guest because you defend the Pancasila.”[[2]](#footnote-2) I gave them a challenge to recite the Pancasila and promised a free airplane ticket to Jakarta for the person who could do this, but nobody could manage it, so I lectured them on our state ideology.

The NGOs operating in the area represented another relevant group of players. Antono commented that the indigenous Indonesian people were generally courteous, but once outsiders came in, such as NGOs with different visions, things became messy at the local level. She felt that NGOs in general were a good thing, but that many NGOs did not have a clear vision or a good understanding of the regulatory environment, as she explained:

Some NGOs position themselves as environmentalists, but they do not understand key concepts, such as the difference between virgin forest and degraded forest. They think no cutting of any tree is allowed anywhere. We follow all regulations, we do environmental impact analysis and so on, but they still oppose us. I spent a lot of time explaining this to one NGO [representative], until someone said to me, “Don’t waste your time, he could not even pass high school.” Other NGOs understand but have a different agenda.

Antono operated an extensive corporate social responsibility program in the villages around the area to foster understanding and prevent conflicts. She described using a personal approach to appease the villagers:

If the father is very rude, and says “I threaten your manager, burn your boat,” I visit them and start talking to their wives [and] children. I find a way to help the family. Someone called me and said, “I want to learn English—can you give me a book?” I myself buy the book, I write in the book— you have to be able to speak in two years; I use their name. [This challenge] makes me more creative. I have to solve the problem.

Antono’s approach was to be humble and ready to talk to all people. This was different from the management of some of the foreign-owned plantations, which had trouble proceeding with land clearance because the general managers would not come to the area. Antono, in contrast, expected all of the top management (herself included), to spend time in the field to explain Multistrada Agro’s vision. She felt that good communication was the most helpful tool to achieve her objectives.

Her strategy was very personalized. She mapped all the structures of all the families in the villages, including all the family heads. She went to their houses, knew how many children they had, what their hobbies were, their aims in life, and their difficulties. According to Antono, when she had difficulties with the palm oil plantation on her land, her personalized approach made several people stand behind her. However, she also remarked that she had to be careful not to owe the villagers anything.

The land conflict

The conflict with the Malaysian-owned palm oil company worried Antono. Even though the palm oil plantation was only a small part of the total area for which Multistrada Agro had licences, the local bupati appeared to be backing the palm oil plantation. Antono depended on the bupatifor various local licences; it became clear that opposition from the bupati hampered her ability to plant, and also led to problems with community relations. Although it was not clear where the threats came from, Antono felt that the conflict over the land played a role.

The Malaysian-owned company naturally took the position that it had received the licence in 2006 and invested heavily in the palm oil plantation, and hence should be allowed to operate it. Antono took the case to the Indonesian courts and won at each level, up to the Supreme Court. However, winning a court case proved to be quite different from actually enforcing the court decision at the local level.

As the Malaysian firm lost its case in the courts, the owners were aware of the risks and came to Antono with a proposal that involved cash compensation to continue their activities and replacement land, or a minority stake in the palm oil plantation. Antono declined their proposals and refused to negotiate. She understood there had been changes in ownership in the palm oil plantation during the conflict. She knew that, because of the conflict, four of the directors had been placed under a “red” notice from the Indonesian government for breaking the law by planting in the area.

Sometime before the incident in which armed “security” threatened the company management and came looking for her, Antono decided to pay a visit to the plantation to see the situation for herself. She set off with a group of six motorcyclists and announced herself at the palm oil plantation management office by giving her name card to the security guards. Her team was asked to wait in the bright sun for almost one hour before being allowed entry, after which the management changed its mind and her team was told to leave.

Despite being treated rudely, Antono maintained a friendly posture and conveyed an invitation to the management to meet her. On the way back on the narrow roads the last motorcycle went missing. Antono had to go back to search for the two missing men belonging to her party. The men had been apprehended by security guards who threatened to report her to the police, and again she was confronted with aggression. She told the guards they could take her to the local police if they let go of her men, but that she would sue them. She eventually was allowed to go, but the episode clearly demonstrated how contentious the situation was.

Possible strategies

Antono thought about how to handle this situation, which had brought so much trouble, resulted in death threats, and upset the delicate balance in the area by pitting villages against each other. Her careful efforts toward the villagers and other stakeholders had been undermined. She had to give her estate manager an answer, but also think about the underlying long-term issues. The following few options were open to her.

**Option 1: Go to Court**

Antono felt quite confident from a legal standpoint, and she had already won up to the Supreme Court level. What was lacking was a final step that would force the local authorities to comply and give her the land. However, taking this last step would cause the bupati to lose face, and would place her firmly in the opposing camp. As Antono said, “We live in the area (*kabupaten*); the bupatican make our life difficult.” Every year, the bupati had to approve Multistrada Agro’s business plan, and as Antono said, “Every year the bupati may try to block me.” The bupati had already blocked the signing of the boundary so that Antono could not start planting. The court case might have been won, but not without confrontation and conflict on the ground, and enforcement was uncertain.

**Option 2: Wait Until the Bupati Leaves Office**

The term of the current bupati would expire within one year, and the planting would be done in stages. Antono could start with other parts of the land. She suspected that the current bupatihad her own reasons to stand behind the Malaysian company, and that a new person might not have the same loyalties. However, Antono was a seasoned executive and knew that waiting would allow the Malaysian company to come up with a counter-strategy. During the conflict, the bupati had already tried to change the status of her land. Moreover, the identity of the next bupati was uncertain; the current bupati (or one of her family members) might be re-elected.

**Option 3: Make a Deal with the Malaysian Company**

The Malaysian company had already taken steps to negotiate, offering US$1.5 million[[3]](#footnote-3) in compensation, with the bupatioffering replacement land. Another option was to jointly manage the plantation, but Antono wanted a controlling stake, which the opponent was not willing to give. Even if such a deal materialized, another problem remained: palm oil was not permitted under Antono’s licensing scheme, and applying for an additional permit to finish one cycle of palm oil would involve substantial lobbying. The cash settlement or a share in the revenues from the palm oil plantation, which was already producing palm oil, would mean extra income that could be used for the expensive land preparation and planting phase; it would allow Antono to scale up faster.

**Option 4: Use Lobbying to Neutralize the Bupati**

Antono considered a variety of options to neutralize the bupati. She could try to lobby at the national level to limit the bupati’s authority to renew the palm oil plantation licence annually, but this would not be easy. The bupati herself was involved in a number of other conflicts in the area. Furthermore, Antono wondered whether the bupatiwas involved in corruption. The bupati’s father, a previous bupati, had spent time in jail for a corruption case. Could this bupati be loyal to the Malaysian company for personal reasons? Antono could lobby for an investigation or report the bupati to the national corruption committee. She could also get involved in politics locally and try to support certain other candidates for the bupatielection.

**Option 5: Use *Preman*-Style Tactics**

Due to Antono’s community-building efforts, a number of villagers were on her side in the land conflict. They told her they would stand behind her and fight with her. Just as Antono received threats, she could also mobilize existing groups to put pressure on the other party. Some villagers suggested she use the so‑called “*preman*” way—using thugs or force to make life difficult for the Malaysian company. There were a variety of options of this nature. The villagers suggested burning the plantation or introducing a crop disease. Sabotage of this nature was quite common in Indonesian land conflicts. Antono knew that foreign investors in Indonesia were usually reluctant to fight with local companies. She suspected that turning up the pressure could make the Malaysian company give up the land, which was, after all, a rather small plot that was hardly worth its trouble.

**Option 6: Give Up**

The last option was to “live and let live”—in other words, plant around the palm oil plantation and leave the situation unchanged. This would allow Antono to build ties with all parties, and allow everyone to coexist peacefully at the local level. However, she would have to give up a fertile chunk of land and run a legal risk, because palm oil plantations were not permitted under Antono’s licensing conditions.

Dealing with the threat

After listening to her estate manager, Antono instructed him to invite the intruders to eat a meal in the village, paid for by the company. This gesture was a proper way to treat guests, but also bought her some time. She told her manager she would call him back shortly. Antono then called her lawyer in East Kalimantan and asked him to go down to the local police station the next day with copies of all the permits obtained, protected by some security people. She called her manager back and asked him to convey the message that she would report to the local police station the next day. Her manager pleaded with her not to go, as the rumour in the village was that she would be tortured while in police custody. Should she make the trip? What other actions should she take?

**EXHIBIT 1: FINANCIAL SUMMARY**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **In US$ (’000)** | | |
|  | **2015** | **2014** | **2013** |
| Net Sales | 237,022 | 282,043 | 320,506 |
| Gross Profit | 17,673 | 42,943 | 45,284 |
| Profit (Loss) for the Year | (26,859) | 550 | 3,602 |
| Earnings before Interest, Tax, Depreciation, and Amortization | 25,271 | 48,349 | 47,728 |
| Earnings Per Share (in US$) | (0.300) | (0.007) | 0.040 |
| Total Assets | 598,429 | 625,512 | 629,150 |
| Total Liabilities | 252,978 | 251,563 | 254,123 |
| Total Equity | 374,452 | 373,949 | 375,027 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **In %** | | |
|  | **2015** | **2014** | **2013** |
| **Operating Ratios** |  |  |  |
| Gross Profit/Net Sales | 7 | 15 | 14 |
| Profit (Loss)/Net Sales | (11.0) | 0.2 | 1.1 |
| **Financial Ratios** |  |  |  |
| Current Ratio | 129 | 175 | 155 |
| Total Liabilities/Total Assets | 42 | 40 | 40 |
| Liabilities/Equity | 73 | 67 | 68 |

Source: Company materials.

**EXHIBIT 2: PROFILE OF KARTIKA ANTONO**

Dr. Kartika Dianningsih Antono is the managing director of PT. Multistrada Agro International, and 11 subsidiaries and affiliated companies that manage industrial rubber forestry in West Java, Kalimantan, and Sulawesi, Indonesia.

These companies are affiliated with PT. Multistrada Arah Sarana Tbk, Achilles, and Corsa tire manufacturer.

She obtained her PhD in international business from the University of Sydney. Before joining PT. Multistrada Agro International, she was the president director of APRIL Indonesia, and involved in managing industrial forestry for pulp and paper businesses.

Source: Kartika Antono/company materials.

**EXHIBIT 3: GOVERNANCE STRUCTURE IN INDONESIAN RURAL AREAS**

|  |  |
| --- | --- |
| Gubernur | **Governor,** head of a province |
| Bupati | Head of a “[kabupaten](http://id.wikipedia.org/wiki/Kabupaten)” or region |
| Camat | District head of a section of the kabupaten, called a “[kecamatan](http://en.wikipedia.org/wiki/Districts_of_Indonesia).” The district head serves under the bupati. A kecamatan is made up of several villages (desa). |
| Kepala desa | Village (desa) leader |
| Ketua rukun warga | Head of a community group or hamlet (small village) |
| Ketua rukun tetangga | Neighbourhood head, who provides security and harmony among a small local community of families/households |
| Kepala keluarga | Household head, who elects the ketua rukun tegangga |

Source: Compiled by the case author based on The Secretariat of the United Nations, *Republic of Indonesia: Public Administration: Country Profile*, 7, 2005, accessed December 17, 2016, http://unpan1.un.org/intradoc/groups/public/documents/un/unpan023233.pdf.

1. Sekretariat Jenderal, Departemen Perindustrian, *Gambaran Sekilas Industri Karet*, 4, 2007, accessed November 23, 2016, [↑](#footnote-ref-1)
2. Indonesia’s official state philosophy, which consisted of five principles. [↑](#footnote-ref-2)
3. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-3)