

# The Significance of Power and Politics in Some Indonesian Organizations

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## Introduction

In July 1997, after three decades of a 6% annual GDP growth, Indonesia was thrown into a prolonged monetary crisis. It watched its rupiah fall against the US dollar and businesses awakened to the fact that a fundamental economic transformation is required in which *transparency* is the order of the day and *corruption, collusion and nepotism* should no longer have a hold. These, combined with the rapidly changing technologies required them to be more competitive.

In their bid to regain and enhance their marketshare, organizations found that they have to generate a radical improvement in their performance while keeping cost efficiencies at all times. Corporations have become leaner and flatter by reengineering their operations. In addition, mergers and takeovers of one corporation by another and major shake-outs have become much part of business life in Indonesia.

In hindsight, what can we learn from yesterday's unstable business environment and the *power and politics* that had arisen within an organization? This article briefly discusses the topic from an *organizational behaviour* viewpoint. It consists of three sections. The first section starts with the definitions, listing relevant research and conceptual approaches. The next section discusses the levels of *organizational politics* in three Indonesian cases which made the local headlines in 1998. The third section concludes with a summary of the findings.

## I. Definitions and Conceptual Approaches

### 1.1 Power and Politics

In general, the OB (Organizational Behavior) philosophy is all about assumptions and beliefs about the way things are in an organization and how they should be. Therefore, an OB system identifies the activities in an organization in order to assist it in getting its attainable goals through understanding and motivating people. Most OB experts agree that organizational politics has to do with power and that power and politics are closely intertwined. This according Zaleznik (1970) is because organizations are political arenas:

*"organizations are political structures which provide opportunities for people to develop careers and thus supply them with platforms for the expression of individual interests and motives."*<sup>1</sup>

It follows that in these arenas the important roles are played by those in power. Robbins (1998), identified organizational power and maintained that the activities derived from it, developed into political behaviour which in turn involved advantages or disadvantages to those within the organization:

*"a capacity that A has to influence the behaviour of B, so that B does something he or she would not otherwise do,"*<sup>2</sup> which are, "those activities that are not required as part of one's formal role in the organization, but that influence, or attempt to influence, the distribution of advantages and disadvantages within the organization."<sup>3</sup>

<sup>1</sup> Zaleznik, A., "Power and Politics in Organizational Life," *Harvard Business Review*, May/June, 1970, pp. 47-60.

<sup>2</sup> Robbins, S. P., *Organizational Behavior*, 8<sup>th</sup> ed., New Jersey: Prentice-Hall, 1998, p. 396.

<sup>3</sup> *Ibid.* p. 410

Thus following on from these definitions, political behaviour is most likely present in organizations because these are structures in which individuals who have the capacity to influence others will do so to influence the distribution of advantages and disadvantages and thereby achieve their individual interests and motives. For example, a person usually works with scarce resources as these are clearly set out in a budget and/or a business plan. Consequently, if someone just gains a little more from those limited resources it would certainly be reduced at the expense of another person. With organizational channels of communication often not transparent and not always objective, there will be a conflict over those scarce resources, and such a conflict may develop into a political behaviour within the organization.

### 1.2 Political Behaviour

Political behaviour within organizations has been the topic of much research. Strategic management experts, Mintzberg and Quinn (1996) suggested, that an organization which is dominated by politics has a lack of any form of order and that, power exercised in such an organization is not legitimate because everything depends on the flow of informal power with the aim of chasing individual interests.<sup>4</sup> The majority of OB practitioners agree that political behaviour becomes a negative force when self-interest undermines the organizational goals. Moreover, since the purpose of an organization is to provide goods

and services, and not to create a place where people can fight with one another, would an organization survive when it is plagued by political behaviour?

## 2. Conceptual Approaches

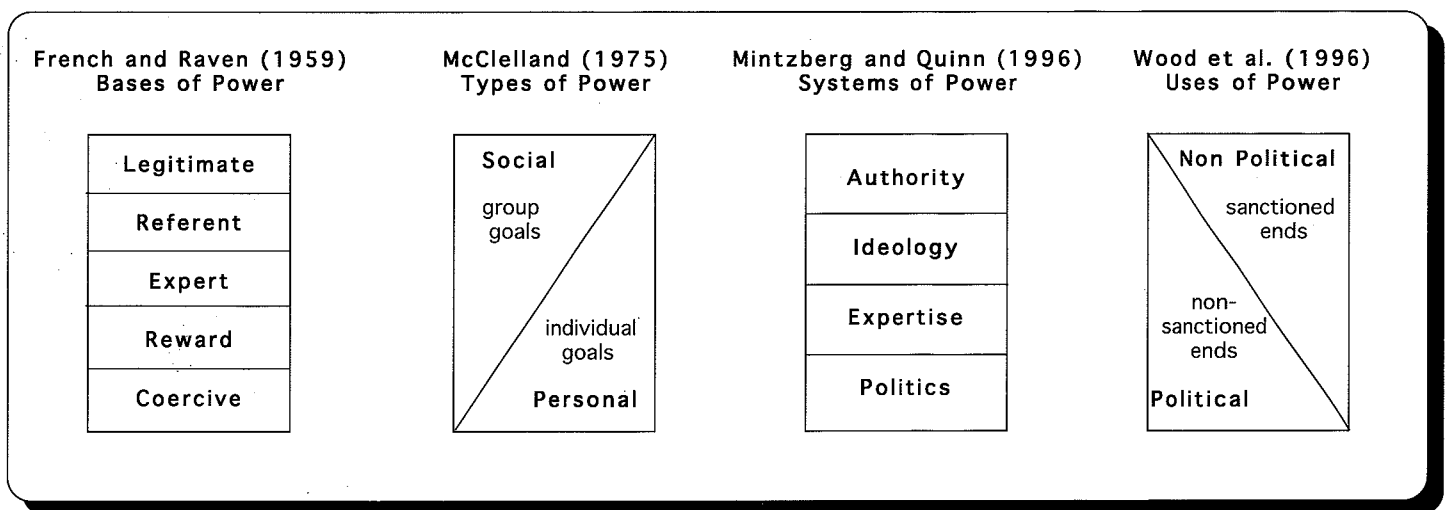
### 2.1 Systems of Power

According to Mintzberg and Quinn (1996), an organization functions on systems of influence, such as on authority, ideology, expertise or, on politics. In a system of **authority**, those appointed by the organization have the power and others are expected to accept this power. In an **ideology** based system, those in power are famous and admired by their followers, if based on **expertise**, the person with skills and knowledge are those in power, and if based on **politics**, then political behaviour is present within the organization which often causes conflict and division.<sup>5</sup>

### 2.2 Bases of Power

Four decades earlier, French and Raven (1959) conducted a study on the subject of organizational power and identified five classic types of power, i.e., legitimate, referent, expert, reward and coercive. **Legitimate** power gives one the inherent right to influence subordinates; **referent** power arises from personal charisma, charm, courage or other traits usually admired in a leader; **expert** power is based on the leader's expertise, skills or knowledge in an area in which the leader has influence over

**Figure 1**  
**A COMPARISON OF MODELS: BASES, TYPES, SYSTEMS AND USES OF POWER**



<sup>4</sup> Mintzberg, H. and J.B. Quinn; *The Strategy Process, Concepts, Contexts, Cases*. Prentice Hall International 3<sup>rd</sup> ed., 1996, p. 382.

<sup>5</sup> *Ibid*, p. 385.

others; **reward** power stems from the rewards one can give or withhold, such as money, protection or friendliness, acceptance and praise; and **coercive** power is obtained from administering punishment in the form of a reprimand or even a dismissal if orders are not followed.<sup>6</sup>

### 2.3 Types of Power

In another study on organizational power, McClelland (1975) established that managers use two kinds of power, **personal** and **social** power. He found that personal power is a negative use because it is applied to gain personal advantages. On the other hand, a social use of power which is concerned with group goals, is mostly effective in achieving organizational objectives and therefore deemed to be positive.<sup>7</sup>

Taking the three models of power into consideration, as shown in Figure 1 above, it follows that power administered from any of the French and Raven power bases may fall into McClelland's category of either social or personal power. In fact, any of these may be exercised for the achievement of organizational or group goals. If any of these is applied to gain individual interests, it falls in the category of personal power. McClelland's further claim, that social power tends to be positive, while personal power is more likely to be negative or, in other words, bad for the organization, should be noted. The same reasoning applies to the Mintzberg and Quinn systems whether based on authority, ideology, expertise or politics. It becomes a negative force when self-interest erodes or defeats organizational interests.

### 2.4 Uses of Power

Wood, Wallace, Zeffane, Schermerhorn, Hunt and Osborn (1998) are of the opinion that organizational politics may be described as "*the art of creative compromise*" of using influence, authority and power to achieve goals.<sup>8</sup> According to them, **political** skills may, like technical skills, become a tool for getting things done. But, on the other hand, the use of power may be **non political** when it remains within the boundaries of formal authority, policies, procedures and job descriptions and if it is directed toward ends, sanctioned by the organization. However,

they maintained that it is political if the skills are used towards ends non-sanctioned by the organization,<sup>9</sup> and in other words, is bad for the organization.

### 2.5 Organizational Governance

To enable an organization to work well, it needs to establish a system. The system determines what is important, how issues will be defined, who should and should not be involved in key choices and set the boundaries for acceptable implementation. Such a system is defined by Wood et al., as *organizational governance*.<sup>10</sup> It is the pattern of authority, influence and acceptable managerial behaviour which is established at the top of the organization. Accordingly, this pattern rests on political foundations, because in order to gain power one should have, strategic contingencies such as access and control of scarce resources, the ability to cope with uncertainty by helping to solve problems, an influential position in the workflow, and a non substitution of one's tasks and activities.

## II. Cases in Indonesia

Taking the above mentioned into consideration, let us now briefly examine the complexity of form in which political behaviour is present in the following Indonesian organizations. The cases were selected from published material and were the topic of discussion in 1998. Case 1, shows how the system broke down in an organization, when the power and politics displayed by top management did not gain the respect of its employees.

### Case 1. Organizational Governance<sup>11</sup>

On 20 November 1998, the *Gatra* shareholders were suddenly summoned for an urgent general meeting (RUPS). The main point on the agenda was to discuss "the loss of billions of rupiahs which the magazine has made" in the preceding period. The president director, Mr. Budiono Kartohadiprojo, who presented a report to the shareholders on the state of affairs of *Gatra*, stated at the closure of his address, that he wished to resign because "he no longer could work together with the directors who reported to him, Harjoko Trisnadi, Herry Komar, Lukman Setiawan and Mahtum Mastoen." The shareholders immediately rejected Budiono's resignation, demoted the named four directors and re-appointed them as members of the board, which in turn was rejected by them.<sup>12</sup>

<sup>6</sup> Robbins, *loc. cit.* pp. 397-400.

<sup>7</sup> Luthans, F., *Organizational Behavior*, New York: McGraw-Hill, International 5<sup>th</sup> ed., 1989, p. 434.

<sup>8</sup> Wood, Jack, Joseph Wallace, Rachid M. Zeffane, John R. Schermerhorn, James G. Hunt and Richard N. Osborn, *Organizational Behavior, An Asia-Pacific Perspective*, John Wiley & Sons, Brisbane, 1998, pp. 481-2.

<sup>9</sup> Wood et al., *loc cit.*, p. 490.

<sup>10</sup> *Ibid*, pp. 488.

<sup>11</sup> Entirely put together from various published sources, see following notes 12-14.

<sup>12</sup> Fahmi Imanullah and Riza Sofyat, "Gaya Gatra Mengubah Manajemen," *Forum Keadilan*, Vol. VII, No. 18, 14 December 1998, p. 71.



It was also reported that the problems at *Gatra* was because the major shareholder, Bob Hasan wished to dominate the management, the finances and especially the reporting policy of the *Gatra* publication. In keeping with the reformation spirit, *Gatra* has reported on the Suharto family, their cronies and their practices and Bob Hasan wanted to put a stop on that.<sup>13</sup>

On 24 December 1998, four representatives of *Gatra* personnel held a press conference at the President Hotel and made the statement that on 23 December 1998, 100 employees have decided to leave *Gatra*. They included editorial and non-editorial staff. The "exodus" was staged following the prolonged disappointment of working in a non-conducive environment which disabled them to work independently and freely.<sup>14</sup>

The major shareholder used a coercive power to dismiss the four directors and a political tactic whereby he wanted to make influential people feel good, "he wanted to put a stop to the reporting of the Suharto family." By doing so he formed power coalitions with strong allies inside as well as those outside the organization.

But, what really happened here? Firms who have a *board of directors* usually have a set of policy and procedures laid down, known in OB as an *organizational governance* system, also known in strategic management as *corporate governance*. The *Gatra* managerial behaviour, is clearly based on political foundations and the power was out to serve its self interest. Although the access and control of the scarce resources were in the hands of a legitimate power, the major shareholder, it was a personal power to serve an individual interest. In fact in this case, an '*organizational coup d'état*' took place and *power and politics* was definitely being played off in *Gatra*, reducing staff morale, resulting in a major walk-out of 100 employees.

The next case shows a political tactic, used by Chase Manhattan Asia who as a major Bakrie creditor, developed its case in getting support for its own case in restructuring Bakrie's debt. This is organizational politics as an '*art of creative compromise*,' as put forward by Wood et al. (1998).

### Case 2. A Conflict of Interest<sup>15</sup>

A large Indonesian group of companies, Bakrie Brothers, retained Chase Manhattan Asia to help restructure its \$700 million debt. This news item would not have brought about such a heated debate in Hong Kong's banking circles, but for the fact that, Chase was a major Bakrie creditor and this arrangement would cause a conflict of interest. The argument was, that by their dual role as creditor-advisers, Chase would gain access to confidential financial information that could be made to their advantage with the possibility of giving priority to their own debt repayments.

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Jonathan Weiss, a Hong Kong-based managing director of Chase Manhattan Asia argues that it is possible to guard against the overlap of interests, by setting up high walls of confidentiality between its different arms. "We definitely see potential conflicts,"..... and ..... "we tell our clients that we will give them objective advice that may conflict with our position as creditor."

Another argument was the inherent dangers in accepting such assignments where the debtor may use an adviser to bring respectability to the repayment proceedings, while in reality such an arrangement may lack good faith. On the other hand, in countries "with poor legal infrastructure like Indonesia, other creditors may find it easier to sue a rich creditor-adviser instead of a cash-strapped debtor."

<sup>13</sup> Irawati, "Mencari Investor Tanpa Intervensi," *Forum Keadilan*, Vol. VII, No. 21, 25 Januari 1999, p. 71.

<sup>14</sup> *Kompas*, Jakarta Daily, Thursday, 24 December 1998, p. 10.

<sup>15</sup> Entirely sourced from Henny Sender, "Double Role," *Far Eastern Economic Review*, Vol. 161, No. 21, May 21, 1998, p. 68.

In this case, influence, authority and expert power were certainly creatively used in an compromise to achieve goals. Here was shown how Chase Manhattan's technical-financial skills became political, a tool in achieving goals, albeit in a conflict of interests. However, in the light of Wood et al., it may further be argued, that the use of power was non political, because Chase Manhattan Asia said it would ensure it would remain within the boundaries of formal authority, policies, procedures, moreover it was directed toward ends, sanctioned by the Bakrie organization.

In the third example a political tactic was used whereby distortion of information to obscure an unfavourable situation led to the political behaviour in the organization. Organizational power and politics took place in Sekar. For example, management held reward power over their employees who were "happy to have a job at low rates, bending over in slushy water." Power and politics were shown for example, by the intransparencies: "investing on balance sheets which were six months old."

### Case 3. A Failure of Disclosure<sup>16</sup>

Based in Surabaya, the Sekar organization started as a family affair. Run by the Harry brothers, Sekar was one of Surabaya's largest employers with thousands of employees working for them, mostly women. The group consisted of two companies, Sekar Bumi and Sekar Laut. They were respectively listed in Jakarta, in 1992 and 1993.

Harry Susilo, chief of Sekar, took his brothers in the business as soon as they were old enough to help out. He was in his late fifties when the economic crisis hit Indonesia. The management structure was loose and the brothers' responsibilities were vaguely defined. One brother said at the interview, "I understand selling shrimp, not finance." Harry Fong Jaya, responsible for the group's treasury operations, was described as fun-loving and most popular with the bankers, brokers and investors. He often took them out for 'a night on the town,' frequenting bars and singing karaoke.

The group processed shrimps, produced prawn crackers and prawn feed and also had a cashew-nut processing facility. In the shrimp processing plant, hundreds of young women, wearing boots to protect them from the slushy water underfoot, bend over frozen shrimps, sorting them for shipment to Japan and Europe. In Tokyo, each shrimp could fetch up to ¥1,000 the equivalent of US\$7.70 or a week's wages for the Surabaya sorter. In an economically depressed area, the women were happy to have a job.

Until 1994, the Sekar companies followed what was probably the smartest strategy for Indonesian businesses: they tapped the country's abundant natural resources on land and sea and exported between 60-70% of their produce to earn valuable foreign exchange.

Then things started to go wrong with the small, successful prawn processing companies. The Harrys began to acquire more glamorous but less productive assets, unrelated to their core business. They bought a hotel, built a golf course and entered the risky world of high finance by selling hundreds of millions of dollars of currency call options to

major international banks. These included the Chase Manhattan, American Express, Deutsche Morgan Grenfell, Standard Chartered, Credit Lyonnais and Rabobank. And in their desire to profit from the exchange rate and interest-rate spread, the company borrowed hundreds of millions more in short-term capital markets. In those days, bankers assumed that once a company is listed, it has a level of professionalism and has implemented certain controls. Thus they lent more willingly to public companies, than to private ones.

In 1996, while Sekar profits amounted no more than \$13 million, it was able to borrow 30-40 times that amount in a few months, expecting to roll the debt over when payments came due the following year. However, in response to the Asian currency crisis, the financial community, including the foreign institutions which threw more money at a prawn processor than it could productively absorb, lost confidence in Indonesia and abruptly pulled the plug on Sekar.

Said an outside adviser of the group, "even after Sekar Bumi and Sekar Laut were listed, there was little evidence of professional management, they never understood the importance of management information systems, of reporting in terms of human resources," "We were investing on the basis of balance sheets which were six months old." "Sekar had tremendous foreign exchange liabilities which were never reported. The statement showed nothing. It was a complete failure of disclosure."

In Sekar, the power and politics within the organization, the intransparency and internal miscommunication at management level were further stressed by such statements as, "there was little evidence of professional management, they never understood the importance of management information systems, of reporting in terms of human resources."

An obvious political tactic was the finance director's display of impression management, drawing attention to his success and trying to influence the financial powers such as bankers, brokers and investors. Another political tactic was the withholding and distortion of financial information to borrow exorbitantly 30-40 times the amount from several lenders, on their reported 1996 profit.

#### 1.1 Implications for Corporate Management

Power and politics clearly played a role in the above cases, the question now remain, in those cases, were organizational power and politics ethical or unethical, was it good or bad, for the organization?

It appears that there are no clear-cut ways to differentiate between ethical and unethical politicking. For instance, on the one hand, Wood et al. argued that there are four rationalized justifications to unethical choices, as for example, first, if the activity is at a considerable personal sacrifice, the behaviour could be felt not illegal but moral; second, if the action appeared to be in the firm's best interest, or third, if it was unlikely the action will ever be detected, or fourth, if the action was committed out of

<sup>16</sup> Entirely sourced from Henny Sender, "Game Over," *Far Eastern Economic Review*, Vol. 161, No. 4, January 22, 1998, pp. 48-51.

loyalty to the boss.<sup>17</sup> On the other hand, there are three identified criteria which determined whether an act is being ethical. For example, first, if it fulfills a criterion of utility, the act optimizes the satisfaction of internal and external constituencies, or second, a criterion of individual rights, whereby the act respects the rights of the individuals involved, or third, a criterion on justice if the act is consistent with the canons of justice. Hence, it should be maintained that ethical actions are those consistent with the organizational goals which generally are to provide long term benefits, satisfaction, individual rights for all constituents. In other words, the individual, organizational and social objectives are met, to obtain a "three-party win-win-win result in which there need not be any losers." The ideal is to strike a workable balance between employees' self-interests and organizational interests, in which the pursuit of self-interest also serves the organization's interest.

Whether it was good or bad for the organization could be viewed from the conceptual approaches as discussed above. The power and politics in Gatra and in Sekar were played out in pursuit of personal interest and therefore "bad for the organization," while in the Chase-Bakrie case, according to Wood et al. it was "non-political."

## Conclusion

It follows that in the organizational arenas the important roles are played by those, who are motivated to exert power and politics in order to gain a little more of the scarce resources. Robbins (1998), identified organizational power and maintained that the activities derived from it, developed into political behaviour within the organization. This, according to McClelland, Mintzberg and Quinn, is bad for the organization if it is carried out in pursuit of personal interest as in the Gatra and Sekar cases. While according to Wood et al., the behaviour becomes "non-political" if the ends are sanctioned by the organization as in the Chase-Bakrie case.

Since no clear cut answers have been provided here, it should be interesting to be further dealt with in the MM classes. For example, to determine whether the power and political actions in the above cases were ethical or unethical, or just legal or illegal or, merely a question of values which would differ from culture to culture?

<sup>17</sup> Wood et al., *Ibid.* p. 490.

<sup>18</sup> Newstrom, John and Keith Davis, *Organizational behavior, Human Behavior at Work*, McGraw-Hill, 10<sup>th</sup> ed., 1997, pp. 14-15.

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