

Organizational communication within the PT. Krakatau Steel Indonesia privatization process

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Abstract: This research explores the way of organizational communication regarding the process of privatization of PT. Krakatau Steel in Indonesia. The theory use rational dialectics theory proposed by Lesile Baxer and Barbara Montgomery. The results that there are contradictive opinions among the functionary staff which then grouped into a tripartite concern with the process of IPO PT Krakatau Steel. This means that the privatization of PT Krakatau Steel Indonesia will include the strategic scheme of sales. The privatization process is considered as a colliding rule – The Constitution 1945 in which the strategic scheme of sales is denationalization. There are different aims of the functional staffs in term of the privatization process.

Index Terms- Relational Dialectics Theory, Corporate Communication, Organization Communication, Privatization, PT Krakatau Steel.

I. INTRODUCTION

The Privatization of State-Owned Enterprise (BUMN) becomes pro-cons issue in Indonesia. It is considered as a way to release a BUMN into a foreigner. As it ever been happened to Indosat which is privatized in 2001-2002. Indonesia sold 41,94% of share to Singtel Group Company (State-Owned Enterprise in Singapore). This privatization stimulates contradictive point of views of the Indonesians. The privatization of Indosat then leads to the privatization of four state banks, such as BCA (2000/2005), Permata Bank (2004), Niaga Bank (2005) and Danamon Bank (2003/2004). The processes become the example of government way to get other funds. Unfortunately, the society sees this way a negative thing.

As matter of fact, privatization becomes a prominent issue on national economic improvement, since BUMN become the main source of national economy improvement in term of dividend, tax, device, and developing funding market through privatization.

The legal framework of privatization is based on Law no. 19/2003 on State-Owned Enterprises (section 74-84). The Purpose and Objective of Privatization of SOEs are mentioned in Government Regulation no. 33 of 2005 on the Privatization Procedures of Limited Liability Company (Persero) Government Regulation No. 59 of 2009 concerning an amendment to Government Regulation no. 33 of 2005 concerning Privatization of Liability Company; and Regulation of the Minister of BUMN No. PER-01/MBU/2010. Privatization is through some ways: (1) strategic sales; (2) Initial public offering (IPO); and (3) EMBO / Employee Management and Buy Out (shares offered to management and employees).

Privatization uses strategic sales scheme, i.e. direct sales to investors. Privatization through *Employee Management and Buy Out* (EMBO) means shares purchased by the management and employees of the company. Meanwhile, Initial Public Offering (IPO), i.e. shares sold to the public. Among the three ways of privatization, IPO is often chosen because it demands the existence of financial transparency which reduces the chances of deviation. As stated in PP no. 33/2005, privatization does not merely mean the sale of a company but becomes a tool and mean of revamping BUMN to achieve multiple objectives, including: the improvement of performance and added value of the company, the improvement of financial structure and management, the creation of healthy and competitive industrial structure, the empowerment Competing and global-oriented BUMN, as well as the spread of public ownership and the development of domestic capital markets. The regulation also states that privatization does not mean that the state's right to the BUMN is lost, but that the state retains ownership functions based on the number of controlled shares.

The privatization process lacks in society's support because of the inadequate communication. As an example of the privatization of BUMN which quite invites controversy is the privatization of PT Indosat. This business is a fairly important telecommunication network, both domestically and internationally. It is such what has been stated by Alwi Dahlan during his inaugural speech as professor of communication at University of Indonesia (Dahlan, 1997), that "information is the livelihood of many people in modern life. If a BUMN whose business concerns with the livelihood of the masses is controlled by a foreign company,

there is much to be concerned about, given the arrangement of network access, the transfer of back-bone through Singapore, and some confidential information (e.g. telephone conversations) foreign power " .

The same case may be bear down due to PT Krakatau Steel (PTKS) privatization through IPO scheme in 2010. PTKS Privatization must be more crucial one than to the privatization of other BUMN. Especially, since PTKS categorized as a strategic industry in the field of steel production business, in which steel products are the basic need for infrastructure development, such as bridges, buildings, weaponry, and others. "Steel industry is more important than any other business". In other words, the steel industry is "the mother industry". (Marjoeni Warganegara, Director of PTKS 1970-1975).

The pros and cons issue of privatization arose in the media. This issue has emerged in 2008 when Mittal Steel, a steel company from India wanted PTKS. The rejection also emerged from various circles in the community. This triggered the emergence of rejection from various circles.

PTKS privatization through IPO scheme is taken place when Ir. Fazwar Bujang served as The Director in 2007. The implementation of PTKS privatization is done quickly, considering the privatization of PTKS has been long scheduled. Only later in 2008, the privatization process began by preparing for house-keeping, including corporate restructuring, asset inventory, strengthening of Krakatau Steel management system. This is an effort toward an open company.

PTKS's stock price determination is determined by BUMN Ministry, Mustafa Abubakar, with underwriters based on price ranges from two weeks of road show conducted by PTKS Board of Directors to several cities, such as: Singapore, Hongkong, London (UK), New York and Boston (United States).

PTKS starts to submit the Securities Emission Registration to the Public Offering of The Indonesian Regulatory Authority for the Indonesian Capital Market and Finance Institute in Jakarta by letter No. 371/DU-KS/2010, on 6th September, 2010, in accordance with the requirements stipulated in the Law of the Republic of Indonesia No. 8 of 1995 concerning the Capital Market mentioned in the State Gazette of the Republic of Indonesia no. 64 the year 1995. Actually, this privatization plan has been long rolled, but due to many considerations then the new plan is really implemented by launching shares on November 10, 2010, under the name of KRAS stock. In the same time, PT Krakatau Steel starts to be listed on the Jakarta Stock Exchange, with the position of stock release at a price between Rp. 800 - Rp 1,050 per share, officially. But then the Minister of BUMN and Underwriter set KRAS shares at the price of Rp. 850

per share. This then becomes one of the conversations that reap the contradictions among stakeholders in the privatization of PTKS, including government, employers, and employees.

The opinion emerged regard with the KRAS share price is considered too cheap in which it must turn out stock prices jumped sharply in the position of Rp. 1,050 per share in the following day. This situation re-emerges the opinion from various circles in the community which assessed deliberately set the stock. Hence, certain parties get profits in a short time even the assumption that the privatization is not in accordance with the 1945 Constitution.

In the process of privatization of PTKS in 2008 shows the existence of feud and reflects the contradictory dialectical relation. On the one hand, the privatization of the government is to seek other funds source as much as possible for the development of state-owned enterprises. As covered in Pancasila (The Indonesia ideology), the 1945 Constitution of section 28 and 33, this dispute becomes a controversial issue, and a polemic appeared in the mass media throughout 2008-2010.

The controversy over the privatization of PTKS starts in early 2008 when a steel company from India, Mittal Steel, visited Indonesia, meeting with President Soesilo Bambang Yudhoyono (SBY). It was an issue circulating in the community that PTKS would be sold to Mittal Steel (under a strategic sales / SS scheme). As a result, there is resistance from various parties to this privatization step, as has been pointed out previously. Due to the SS scheme, the ownership of PTKS switches to foreign, with the consequences of management being changed. Moreover, the privatization plan of SOE continues to be implemented to achieve the target of state revenue, especially to reduce the budget deficit of state budget (APBN) so that the controversy arises due to different opinions among the society.

The dialectical relations of the parties involved are increasingly heated which indicates the existence of different views and that each side assumes its opinion is more suitable than the opinion of the other party. All this is the basis for the emergence of contradictions in the PTKS IPO process. Basically, these issues indicate the existence of different ideological views about privatization which then becomes more tapered. Furthermore, inevitable deep, distant and sharp conflicts over privatization policy are inevitable. These conflicts occur in the form of contradictions, conflicts of interest among the parties involved in privatization. The term used for this is "tripartite".

In the privatization process, PTKS uses the services of a communication consultant, PT Kitacomm, as a liaison between the company and the media and other parties. This is done because PTKS is not quite

ready to face and handle issues circulating in the media. In addition, the establishment of PTKS Corporate Communication Division was suddenly impressed which was formed only two months before launching KRAS shares, precisely in September 2010. The establishment of Corporate Communication Division is one of the requirements that must be fulfilled for the companies to be privatized. Based on these considerations, it is done in cooperation with PT Kitacomm to handle the IPO process. In the case, PTKS entirely handed over PT Kitacomm to assist the IPO process.

Based on the explanation above, this study offers two statements of a problem as mentioned: (1) tripartite case in PT Krakatau Steel privatization and (2) the way of organization communication concerning PT Krakatau Steel Indonesia privatization.

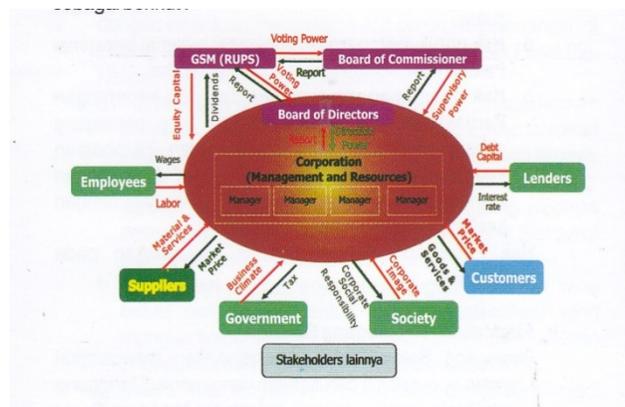
II. RESEARCH METHOD

This study uses a qualitative approach. In addition, this study also applies relational dialectics theory (RDT). This study focuses on the organization context by observing the phenomenon which is then explained the detail process of the phenomenon. The researcher positions as participant non-observer. The data collection in this case study is providing various evidences, including documentation, recording, archive, interview, direct observation, and tools.

III. FINDINGS

3.1 *Tripartite Communication within PT Krakatau Steel Privatization*

The Privatization of PT Krakatau Steel involves the company stakeholder, including manager, staffs, suppliers, lenders, government, society, and customers. Further, the stakeholders are divided into three groups, are government, company management, and company staffs. It is displayed in below figure.



Source : Hand book of GKSG PT Krakatau Steel (Persero), 2008.

The figure above shows how the interrelationship committed between management companies (Board of Directors (BOD) and the stakeholders). The relationship is different from each position. BOD reports company operations to Board of Commissioners (BOC) while BOC is coaching the input of company progress. General Meeting of Shareholders (AGM) is a meeting forum between BOD and BOC held once a year where BOD gives a report in GMS to the joint decision making related to material in GMS. The relationship between management and employees is bounded by rights work and obligations. In this case, the employees who are under the auspices of the Employees Union of Krakatau Steel (SKKS) become the place of employees to convey their aspirations.

Related to the suppliers' relationship, PTKS keeps the relationship transparent and in accordance with the procedure, i.e. by bidding on each project submission. Suppliers should only be accepted in the guest room only. A further relationship established with customers is to provide good service and to provide an overview of the market price to the company.

Then, lenders and government are inter-related stakeholders in which government does not only establish taxes for the company but also provides input on the business climate in the environment where the company is located. Lenders are investors who invest in cooperation with the company, so the connection is more on efforts to develop the company. Currently, PTKS is a joint venture with Korean steel company, Posco; Nippon Steel (Japan). Also, the figure shows the mutual relationship between the board of directors of PTKS and its stakeholders. The Board of Commissioners and the Board of Directors are the decision makers for the company's strategic policies. Stakeholders are part of PTKS when it faces privatization. In this study, the parties directly involved in the prize of PTKS are Government, PTKS Management, and Employees while other stakeholders become part of this tripartite.

Good relationship with the external public is important for a corporation and needs to be nurtured sustainably (continuously). As previously stated, the establishment of Corporate Communications Division is the development of the Public Relations Division when PTKS is privatized in 2010. The existence of corporate communication unit is one of the requirements for companies to be privatized. So, the establishment of PTKS Corporate Communications Division is only done two months before PTKS launches its inaugural shares on November 10, 2010. Regarding the negative news about privatization published in

the media, according to PT Kitacomm has been dealt with maximally. Meanwhile, the PTKS considered this is a careless step from PT Kitacomm as a communication consultant. It is also stated by former Director of PTKS, Ir. Fazwar Bujang, about the function of Corporate Communication Division with PT Kitacomm as PTKS communication consultant about the polemic that happened during PTKS IPO process, as followed:

"The function of Corporate Communications and Kitacomm consultants is related to public assessment. Actually, we (PTKS) have done the best acts concern with the public assessment on PTKS is good enough. This Kitacomm issue is not related to Corcom (Corporate Communication Division of PTKS), which I value (PT Kitacomm) is not careful in communicating with the external community. But this problem is not related to PTKS. That's their internal problem. There is nothing negative about the company. Do not disturb the stock, nor does it interfere with other problems ". (Interview, Tuesday, October 1, 2013, at Wisma Baja, Jakarta).

According to Ir. Fazwar Bujang, any cases related to media news have been becoming the responsible of PT Kitacomm since PTKS has determined PT Kitacomm as their communication consultant. In contrast, PT Kitacomm's Director, Henny Lestari, said that the difficulty encountered dealing with polemics that emerged in the media is that the PTKS management did not support in taking a non-interference attitude which causes PT Kitacomm faced the polemic itself. Although in the end the polemic, it can be overcome by implementing "cover both sides" or by loading positive news about the company.

Almost all side involved in PTKS privatization agree to privatize it by IPO (*initial public offering*). It is relatively safer compared to the SS (*Strategic sales*) because the government's ownership of PTKS is still large. Thus, PTKS is still a legal entity of state own enterprise.

Issues emerged regarding this activity is violating the 1945 Constitution or "unconstitutional", "denationalization" issues, "foreignization" and even "robbery" issues, as well as non-transparency issues in stock rationing, low stock price issues, and any other. These issues are then related to different views about the ideological values of privatization itself or in this case relates to the philosophy of Pancasila and the 1945 Constitution.

It also explicitly shows that there are interests of the parties involved in the privatization of PTKS which benefit each own position.

The Government, who has full authority of state own enterprise, chooses to privatize PTKS with many considerations; to develop PTKS more leverage. Through privatization, PTKS will get more funds to achieve

that goal. From the side of the 1945 Constitution, the Government is trying to save state own enterprise to be more advanced.

In another side, the management of PTKS, whose position is as entrepreneurs, wants PTKS grows and progresses without eliminating most of the rights of ownership. Thus, the management still has the authority to manage the company. Furthermore, from the employees' view, it is hoped that with the privatization of PTKS will provide better welfare and justice.

The difference between understanding and interest then meet a dialectical discourse which stimulates contradiction appearance. Hence, the following points present each of the differences of ideological foundations, interests, and dialectic discourse.

3.2 Organizational communication within PT Krakatau Steel privatization through strategic sales

In this case, the government sells all or part of shares owned by the certain state-owned enterprise (BUMN) to the public through the capital market. This strategy is jointly owned by the government and the public/private sector. This privatization is conducted to raise the national economy. While privatization of the EMBO scheme is a capital restructuring initiative involve employees and management to buy shares of their own company to minimize share ownership. (Material Presentation of SKKS Chairman period 2009-2012). During the period of 2008-2010, the publication of PTKS privatization made headlines in various media. This may be because the purpose of privatization itself is not fully understood. As stated earlier, the purpose of privatization is basically to develop the company through funds obtained from the sold shares. This is based on government policy to conduct privatization action for BUMN, as stated in the regulation No. 19/2003 and PP 33/2005 concerning the Privatization Procedures of BUMN PP No. 59 of 2009 on Amendment of PP Privatization. It is expressly stated that the purpose of privatization is to improve the performance and value of the company, to increase the benefits for the state and society, and to expand share ownership. Thus, BUMN management becomes more transparent and professional based on Good Corporate Governance (GCG) principles.

The development of Good Corporate Governance in the state-owned enterprises is proclaimed by the BUMN Ministry by issuing the Decree of the BUMN Ministry No.23/M-PM.PBUMN/2000 31stMay, 2000 about the Development of Good Corporate Governance Practices in the Company. This decision is subsequently replaced by Ministerial Decree of state own enterprise No.117/2002 about the

Implementation of Good Corporate Governance Practices on BUMN, section 2 states that Paragraph (1) state own enterprises are required to apply Good Corporate Governance consistently, (2) the implementation of Good Corporate Governance in state own enterprises shall be executed based on this decision regarding prevailing regulations and norms. Hence, the news broke out in early 2008 about privatization plan through the way of strategy is actually arguable.

During May 2008, there has been a rejection of the government's plan to sell PTKS to Mittal Steel (a steel company from India). The rejection comes from various circles, including the employees of PTKS itself.

The rejection also comes from the community of Cilegon, Banten (Radar Banten, May 30, 2008) such as youth organizations, NGOs, Paguron (karate community), MUI, and many others.

Tabel 4.16. Cilegon Society response

1.	First, reject the privatization of PTKS to foreign party through a strategic partner or sales partner.
2.	Second, support the sales stock of PTKS through <i>initial public offering</i> (IPO) and give sales stock priority to government.
3.	Third, reject employee firing either organic staff or outsourcing until 2010.
4.	Fourth, suggest 70% workers recruitment from Cilegon.

Source : Radar Banten, 30 Mei 2008

The issue of PTKS privatization grows steadily along with the emergence of foreign companies that intend to buy PTKS, starting from Arcelor-Mittal, who signed a memorandum of understanding (MoU) with state own enterprise's Minister, Tanri Abeng, to start the process of selling KS shares up 51% in 1998. Unfortunately, the MOU was canceled by the government because of violating the principle of transparency of state own enterprise privatization. President Director of PTKS, Soetoro Mangoensoewargo rejected this plan. The former first President Director of PTKS as well as the founder of PT Trikora Steel, Ir. Marjoeni Warganegara, who was dismissed as President Director of PTKS prematurely, conveyed his objection in his

memoir book, "The Struggle to Build Krakatau Steel", Revised Edition May 2009. Below the captured text of his expression:

"I feel sorry for the fate of PT Krakatau Steel. Just imagine, when the performance is good and the net profit in 1997 reached Rp182 billion, State Enterprises Empowerment Minister, Tanri Abeng, sells KS shares. The funny thing is that the sale of the shares is not transparent. Tanri will sell KS shares to sole Ispat International NV investor without an open tender of US \$ 400 million. I wonder what the minister's consideration to be attracted to Ispat. To me, Ispat is not the largest steel company in the world. I smell something is not right behind the minister's plan ". (Yuarsa, 2009).

As a former President Director of PTKS, he felt compelled to cancel the planned shares sale of PTKS. He visited the Vice Chairman of Commission IX, Mr. Syaiful Anwar Husein. Apparently, this effort is useful that the House of People's Representatives (DPR) does not fully support Tanri Abeng.

"It is common for DPR members who were partly appointed by the President and the members of "New Order"Administration in which they may bring in personal interest" (Yuarsa, 2009: 155).

Further, Taufiequrahman Ruki stated about the oblique issues about the purpose of privatization of PTKS for the government:

"I do not want to assume. The historical fact is already clear. The people say strategic sale for elections ".

Public awareness of the state-owned enterprises is increasingly exposed. The issue is growing because the privatization of KS is a controversial issue. According to the Head of Investment Coordinating Board (BKPM), Muhammad Luthfi, from several investors highlighting KS, Mittal is the only investor interested in becoming a strategic partner investor (Tempo Bisnis newspaper, 2008).

Similar to Robby TD Janis, SKKS Chairman, Arif Purnomo, also said that privatization is a way for PTKS to get more fund, especially by using IPO scheme.

"The principle considered is that corporate interests must be saved. The issue of pricing, stock-fixing, and so forth is their business during the IPO process. Then, there are steps to face the IPO from the side of the company that we do".

This statement was also reinforced by Former President Director of PTKS, Marjoeni Warganegara, that:

"The steps taken to privatize PTKS with an IPO scheme are appropriate. It is also supported by PTKS cooperation with Korean steel company, POSCO. This may be a good step to achieve PTKS's plan to move forward and to grow". (Interview, Wednesday, 18th September 2013).

Based on Indonesia Law no. 19 2003, privatization of State-Owned Enterprises can be done through three ways: (1) sale of shares based on capital provisions, (2) direct selling to investors (strategic sales), and (3) Employee and Management Buy Out (EMBO). These three methods can be done, both for the sale of government shares (divestment) and new shares (dilution). In this case, the privatization of PTKS uses the Initial Public Offering (IPO) scheme.

The difference between privatization with IPO scheme and strategic sales scheme (SS), is that using IPO scheme will lead the company to be in the same status – state own enterprise while strategic sales mean giving all shares to the company. The following chart illustrates the difference between SS scheme and IPO scheme.

Table 4.21. Strategic Sales VS IPO

	<i>Initial Public Offering (IPO)</i>	<i>Strategic Sales (SS)</i>
Strength	<ul style="list-style-type: none"> • the process is more Visible • the responsibility of job performance is more accountable • the process of <i>pricing is fairer</i> and more objective because the mechanism is applying book building. • company control is still in the 	<ul style="list-style-type: none"> • the process is obscure • the company may get income from market, network, technology and management skill • <i>Investment horizonis</i> longer • <i>Management change</i> is bigger

	<p>government</p> <ul style="list-style-type: none">• the information access is easier.	
Lacks	<ul style="list-style-type: none">• the company may not get strategic income from market, network, technology and management skill.• The process and proceeds depend on timing dan market fluctuation.• <i>Concern investor</i> focuses more on <i>earning</i> rather than company development	<ul style="list-style-type: none">• there is no historical relation to development.• Investor commitment may be different from national purpose.• company control is divide.• different management.• the process of selection may be closed.• <i>Value</i> is relatively difficult.• the stakeholder is not in line with the investor.• there is no permanent timing on the interest

		and deal
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Source : material presentation of SKKS, 2008

From the table above, the IPO scheme tends to be more appropriate.

IV. CONCLUSION

The privatization of state own enterprise raises various opinions from the parties involved which also raises the issue of the ideological foundation. Thus, the discussion cannot be separated from the amendment of the 1945 Constitution, section 33 and 28, as well as the role of IMF, World Bank and WTO associated with the issue of "denationalization", "foreignization". In addition, there is a factor of interest of parties motivated by political issues, causing a contradiction between parties involved in privatization. This contradiction then leads to dialectical pressures, where these pressures meet to reach consensus. In fact, the privatization decision by using IPO means is the result of a consensus that occurs through the process after the previous rejection of the Government step. In this case, corporate communication is not too maximal in the implementation of privatization of state own enterprise. The involvement of the communication consultant in the privatization is as a supporting institution for a company to be privatized in the decree (The Indonesian Regulatory Authority for the Indonesian Capital Market and finance institute – Bapepam-LK).

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