

CHAPTER I

INTRODUCTION

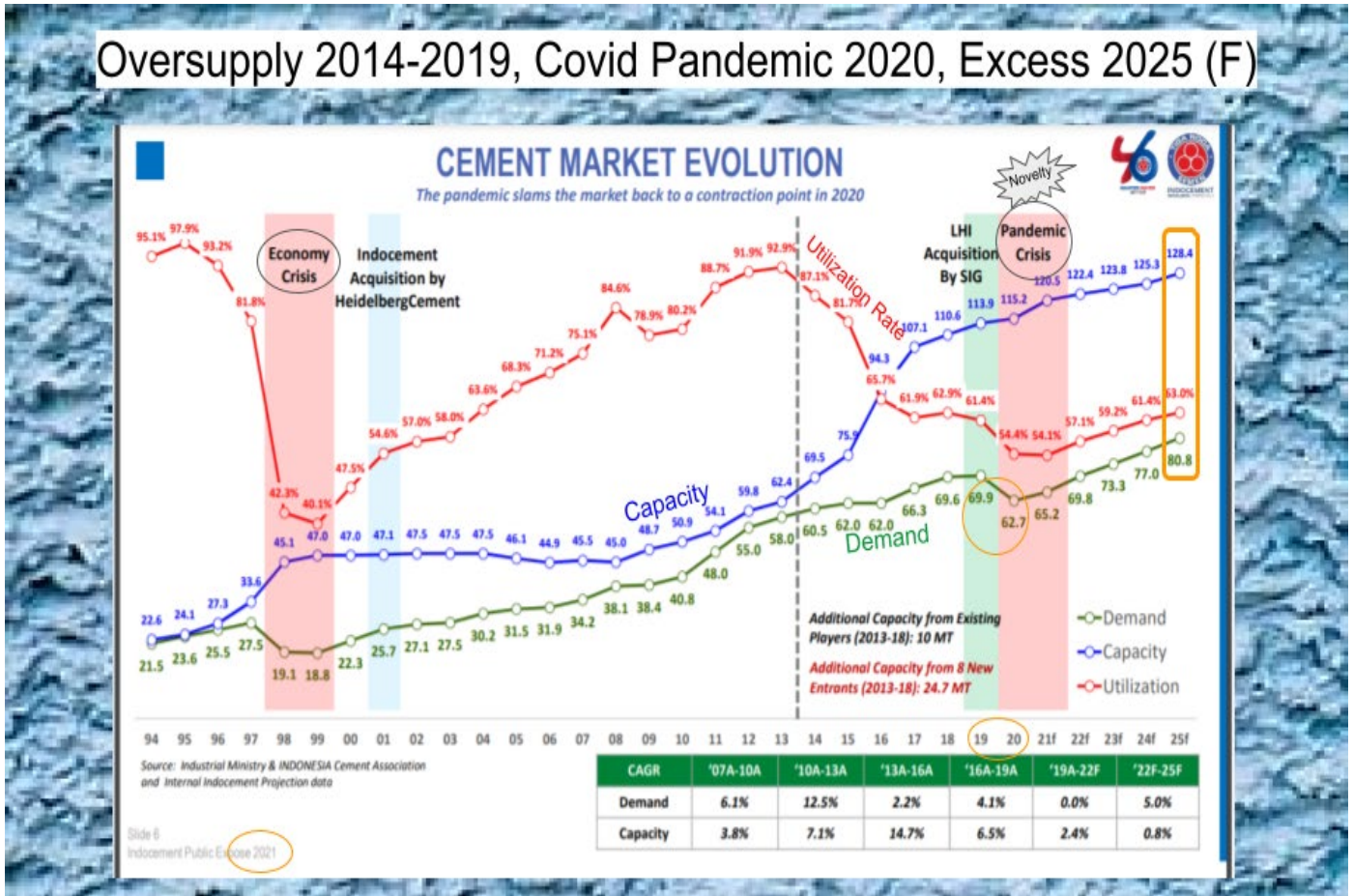
1.1 Background of the Study

1.1.1 Crisis Cement Industry in Indonesia period of 2014-2019

The Indonesian cement industry is in a crisis. It started from 2014, where the Indonesian cement industry has been experiencing an oversupply capacity (PT Indocement Tunggal Prakarsa Tbk., 2020), on the contrary capacity kept on increasing. By 2020, Domestic capacity is reaching 115 million ton while demand is estimated at only 62 million ton per year as illustrated on Figure 1.1 below. This excess capacity of 53 million tons is equal to 85% above the current demand. With demand growth around 4% per year, it would take another 20 years for industry to absorb the excess capacity (provided there is no newer kiln built in the near future).

Crisis is defined as the situation that is out of hand, potentially disruptive and threatens an organization's overall goals (Coombs & Holladay, 2002). This alarming situation makes industry players restless if they cannot be said to panic. To make it worse, in the middle of increasing production costs due to inflation, market prices are decreasing. The Average Selling Price is down by 15% in the last 5 years. The impact is quite massive. With industry revenue approximately IDR 70 trillion per annum, a 15% price cut is reducing industry profit by IDR 10,5 Trillion. Furthermore, oversupply conditions force the factories to operate at an average 54% of utilization rate as illustrated in Figure 1.1 below. The cumulative impact of the crisis has deteriorated the major players' financial performance (Figure 1.2).

Figure 1.1 - The Pandemic slams the market back to a contraction point in 2020



Source: Indocement Public Expose 2021

Figure 1.2 - Financial Performance INTP and SMGR

PT. Indocement (INTP) - Highlighted Financial Report 2014 - 2020 & 2021										
In Bio Idr	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	17,290	18,691	19,996	17,798	15,361	14,431	15,190	15,939	14,184	14,771
Net Income	4,763	5,012	5,293	4,357	3,870	1,860	1,146	1,835	1,806	1,788
N.I Margin %	27.50%	26.80%	26.50%	24.50%	25.20%	12.90%	7.50%	11.50%	12.70%	12.10%

PT. Semen Indonesia (SMGR) - Highlighted Financial Report 2014 - 2020 & 2021										
In Bio Idr	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	19,588	24,501	26,987	26,948	26,134	27,813	30,687	40,368	35,171	34,957
Net Income	4,847	5,387	5,560	4,521	4,418	2,009	1,674	2,392	2,792	2,021
N.I. Margin %	24.73%	21.91%	20,60%	16,78%	16,91%	7,23%	5,97%	5,90%	7,9% ¹	5,5% ¹

Source: S&P Capital IO (2020)

During the preliminary discussion with a few key industry players in January 2020, it was admitted that the crisis in the cement industry was felt and real. As the stages of crisis can be divided into 3 stages: pre-crisis, crisis management, post crisis (Bundy et al., 2017), where the initial indication that crisis is already felt, the focus of this comparative case study research will be directed toward the crisis management stage.

Numerous recovery efforts have been taken, but there seem to be no effective remedies to remove the crisis. In fact, new players are still building up capacity; their moves have stirred up the existing local players to join the race by adding up new capacity despite the fact that demand is growing at a slower rate. As a result, industry financial performance is depleting.

Subsequently, the crisis deepened its chasm with the unexpected pandemic caused by the Covid-19. The presence of the pandemic was felt in Indonesia around March 2020, and the locked down measurements were taken in May 2020. Since that time, it has paralyzed many economic sectors including the cement industry. This period of the 2020 cement crisis will be discussed in the next paragraph.

1.1.2 Crisis Cement Industry in Indonesia period 2020-onward

During the period of 2014-2019, the ongoing world economic recession had already caused almost all countries in the position of cement oversupply. Entering the year 2020, the effect of COVID-19 outbreak is shockingly devastating where local demand negatively dropped 7%, and how long it will last is still a big question mark. Similarly, global demand for cement in 2020 is expected to drop by 7 to 8 percent, although these drops have been unevenly distributed across regions. In response, cement players around the world have decreased production significantly or even closed plants entirely (Roger, 2020).

Despite that hard reality, foreign investors are still very aggressively building up

new capacity in Indonesia. Frail coordination between inter-governmental offices make it possible for those investors to enter the Indonesian market easily. Foreign Direct Investment office has a target to attract new investors in order to increase the country foreign exchange reserve as well as to open new employment opportunities. But, without any coordination with other offices, this open-door policy impacted the local industry, negatively. As a result, the condition of the Indonesian cement industry is facing a deeper and longer crisis.

1.2 Statements of the Problem

Reflecting the above data and financial report performance period of 2014-2020, it is clear that the crisis in the cement industry is quite acute. First, there is an issue of oversupply capacity where the management should respond to settle this issue by taking immediate and the right corrective action (Brockner & James, 2008). According to Kindleberger and Aliber (2011), the essence of economic crises is discovered in excess production in relation to effective total demand. And, a crisis could have negative impacts for firms, if not countered appropriately (Coombs, 2007). Subsequently as this issue is getting out of hand, it turns into a crisis where the oversupply situation hurts industry performance badly. Crisis management is needed to maintain control for the stability of this situation (Forstner, 2015). Excess capacity must be absorbed by creating more and new demand.

One of the potential and immediate solutions for Indonesian cement is to export to regional countries such as ASEAN and ASIA. Unfortunately, almost all ASEAN and ASIA markets are oversupplied, too. In fact, up to 2019, the worldwide cement industry is already experiencing an overcapacity dilemma. Suddenly, a pandemic effect in the beginning of 2020, has caused the global cement demand to plunge deeper. In this situation, if everyone with excess capacity wants to do export, the question is where to and who will buy it?

The Second problem, Indonesian consumption is quite low, 262 kg per capita (Indocement Public Exposure, 2019). This is among the lowest in ASEAN and Asia countries

and much lower if compared to the average world consumption that is 500 kg per capita, with China standing alone consumption of 1700 kg per capita. Why and how is Indonesia able to raise its demand to match other ASEAN counterparts? It is ironic to witness Thailand with economic growth lower than that of Indonesia, its consumption per capita is almost double that of Indonesia. Why is Indonesia lagging behind? How is the strategy of Malaysia, Vietnam, and Thailand to maintain their high cement consumption above 500 kg per capita? It deserves to be studied seriously by the local major players.

At the same time, it will also be wise to learn from China, South Korea, and the closest neighboring country, Singapore, about how they can reach such a high consumption of 1700 kg, 1000 kg, and 1000 kg per capita. Their consumption per capita is much higher even though their economic growth is not even four to seven times higher than Indonesia (Indocement Public Exposure, 2019).

The third problem is the lack of a consolidated act during the crisis period. Major Players are busy with their own individual strategy to survive. Could this be because they have their own perception and perspective about the crisis? SMGR and INTP with 80% of market share are supposed to lead and to drive the industry toward the right direction, particularly as the two suffered the most during the industry turbulence. However, reality speaks differently as a result their financial performance continues to deteriorate.

1.3 Paper focus: SMGR (55%) and INTP (25%), 2 major players 80% share

Framing crisis requires specifying who (actor) experiences what kind of crisis (content) at what speed (pace) (Wilke & Ritter, 2006). Actors in this research are directed toward SMGR and INTP as these two major players are very dominant in the market and simultaneously affected the most by the crisis. The actions of their top leaders determine the fate of the industry in the future. Based on Bloomberg data, November 2020, two major cement companies in Indonesia based on market share are PT. Semen Indonesia Tbk. (SMGR) and PT. Indocement Tungal Perkasa Tbk. (INTP). SMGR dominates 53% of market share

and INTIP dominates 26% of market share in the cement industry in Indonesia. Because these two companies own almost 80% market share, their actions are significant enough to represent the landscape of the cement industry in Indonesia. The remaining 20% market share is divided among 9 other players.

Pace or speed of the crisis (Ritchie, 2004) is reflected by the crisis action of wary players who are easily triggered to initiate a price war. Responding to this turbulence, major players like SMGR and INTIP seem to be drifting along with the price war instead of taking the role as the industry leader to command the direction of the industry. Furthermore, the two players with combined 80% market share are busy with their own individual strategic plan to save their boats from sinking. Their generic strategies (Porter, 2006) are “cost efficiency” and “price reduction” in order to obtain sales volume as much as possible. Actually, the core problem is about the industry oversupply which must be tackled together (the industry way). Saving an individual company’s life does not solve the central issue. SMGR and INTIP as market leaders with competent top management should be powerful enough to drive the cement industry and to find a way out from the industry crisis.

1.4 Purpose of the Study

The purpose of this study is to understand the industry crisis faced by two major players and to adopt the appropriate theory in developing a thematic solution, as part of Crisis Management Emergency Response (CM-ER). The applied research method is a Comparative Case Study. Comparative case studies involve the analysis and synthesis of the similarities, differences and patterns across two or more cases that share a common objective. The explanatory phase of comparative case studies identifies new propositions derived from the observation of matching patterns and correlations, and searches for more evidence to delve or test these propositions (Goodrick, 2014). The unit analysis consists of organizations from SMGR and INTIP from top level to middle level. In addition to it, this unit analysis will also be enriched with data interviews from industry experts as well as customers.

Multiple case studies can be utilized to either augur contrasting results for expected reasons or augur similar results in the studies (Yin, 2003). In this way the author can clarify whether the findings are really beneficial or not (Eisenhardt, 1991). During the comparative case study research process of identifying the differences and similarities in the actions of the two industry players, there could be new information emerging (Yin, 2003) from the result of the various interviews. Furthermore, some strategic response ideas could be good sources; however, lacking implementation skill could also result in under performance.

Novelty of this paper is about the findings of incoherent crisis response during industry crisis period 2014-2020 through comparative case study research between SMGR and INTP. Currently, major players seem to pursue different actions as they do not have similar perspectives toward crisis phenomena. From the interview results with SMGR and INTP participants, it becomes clear that their individual efforts did not improve their financial conditions.

Another novelty derives from the impact of COVID-19 in 2020, Crisis Management Emergency Response of the two major players due to pandemic outbreak is never the same as before. This crisis due to Covid-19 is very unique as health-related issues have never sparked a crisis in the cement industry in Indonesia.

The qualitative case study method requires tools so the scientists can study the general view within their contexts. If the method is exercised rightly, the method will be advantageous when you study J. Gustafsson science, evaluate programs and build theories and involvements (Baxter & Susan, 2008). Using a qualitative methodology in order to understand the crisis phenomena (Wahyuni, 2015), through all data analysis including the triangulation process, it is expected to produce a thematic alternative solution for the future of the cement industry. Russell & Taylor (2019) said that the Qualitative or Judgmental method is often called “the jury of executive opinion”.

1.5 Research Questions (RQ)

Crisis can emerge from various types of reasons. Different research strategies are applied in accord to relevant situations faced. The selection of methodology is directed by the questions being raised (Viswambharan & Priya, 2016). The form of Research Questions is about How and Why, where researchers do not have a control over behavior of the crisis events, and the focus is directed on the current or contemporary events (Yin, 2003). As for SMGR and INTP crisis situations, comparative case study is more suitable by raising research questions about what is done and what is not between the two players in response to the environmental changes and challenges. Then, comparing the differences and similarities in finding the pattern, prior to proposing a thematic solution.

RQ in this comparative case study method will focus toward two issues. First, about whether the crisis is real from the perspective of SMGR and INTP management. It is more about factual happenings in the cement industry and combined with the available data. Second is a comparison on how each player is taking strategic actions to counter the crisis event. This is more of real experience faced by the participants, how they respond to crises (Denzin & Lincoln, 2008). And, the last RQ is to explore all the unthinkable or unspoken ideas in response to a crisis. They could be novel ideas, including the possibility of re-introducing the idea that had been rejected, discarded, or any old idea from a previous improvement strategy.

Therefore, the research questions are:

- RQ1:** Do you see / experience a crisis in the cement industry?
- RQ2:** How does management manage strategic responses / actions to counter the crisis?
(Guideline: Concepts from Crisis Management Emergency Response: Change and Innovation)
- RQ3:** What are strategies done by others but not done by the management? Why?
(Comparative crisis response of SMGR and INTP, the cross-case analysis with Global Players' practices)

RQ4: Is there any unthinkable idea to solve this crisis? (Guideline: insanity, innovation, breakthrough, improvement of an existing idea but already wasted, rejected idea, or from cross-case analysis with actions of Global Players)

On top of the interview result, primary data (public exposures, financial reports SMGR and INTP), secondary sources (market information), and relevant literature are also carefully considered throughout the analytical process. Purposive sampling is taken from top to middle executives SMGR and INTP who directly face the crisis, also Homogenous sampling from industry experts such as President Indonesian Cement Association, Industry experts, as well as consumers / channel distribution to enrich multiple data collection through comparison similarity and dissimilarity responses to the crisis event.

The ultimate objective of RQ's is to comprehend how the crisis responses were structured and if there were any matching patterns in the structure within this multiple case study research. These interviews assisted corroborate themes emerging from the document analysis, as well as explored the success or failure of the current crisis response. Comparison of interviews across SMGR, INTP and Global Players' practices is expected to offer insights about factors influencing the sustainability of the two major players in coping with the crisis.

1.6 Nature of the Study (the methodology employed)

Qualitative research is a naturalistic study and as a process of discovering meaning based on inductive analysis and not only a generalization process (Bogdan & Biklen, 1998; John W. Creswell, 2009; Lincoln & Guba, 1985; Nishat Faisal et al., 2006). This study emphasizes on Qualitative Methodology by applying Comparison Case Study Research Method in an effort to understand the industry crisis faced by two major players. The case study method is a research strategy of investigating an empirical topic by adopting a set of pre-specified procedures (Yin, 2003). Generally, when "how" or "why" questions are being posed, when the researcher has limited control over events, and when the focus is on the

contemporary phenomenon within some real-life context, the preferred research strategy is case study (Gustafsson, 2017).

Qualitative research is also a method of inductive theoretical development by way of observation, then looking for matching patterns that can illustrate relatively universal principles. According to Eisenhardt (1991), the amount of a case study relies upon how much new information and data the cases found and how much is known. And, Dyer & Wilkins (1991) states that the important issue is instead if the investigator is capable of illustrating and comprehending the context of the scene in question so well that the context can be understandable to the audience and subsequently to produce theory relevant to that context.

Comparison similarities and differences between crisis response throughout longitudinal 2014-2020 within management of SMGR and INTP are investigated in this research in an effort to describe and to understand the context of the scene in question. Despite different companies and not the same management styles, both major players are experiencing a mutual issue that is a crisis due to market oversupply conditions and how to produce good financial performances.

1.7 Outline of the Remainder of the Paper

There are five chapters following this chapter. In Chapter 2, literature review will be useful in developing concepts of crisis management response through exploration of phenomena gaps and research gaps. How Crisis Management Response creates a sense of crisis and leads to Change in Leadership style, Organizational Learning, Innovation in Business Process to survive the crisis. In Chapter 3 - Methodology: Qualitative Research. Research Protocol is used as a mental framework in conducting this qualitative research. The research paradigm is using interpretivism to gain insights through discovering and exploring the richness, depth, and complexity of phenomena (Wahyuni, 2015). Then, continued by describing the methodology of qualitative research and method of comparative case study research, as well as the technicality of conducting the research, in an effort to discover new

ways to escape the cement industry crisis.

Chapter 4 will delve into analysis of findings from multiple sources to understand crisis response, deriving from comparison of the differences and the similarities of strategic actions between SMGR and INTP and cross-case study analysis with Global Players' practices. In Chapter 5, after findings from participants' interview results, primary data, secondary data, a thematic proposition for a cement crisis solution will be developed. Finally, in Chapter 6, the researcher will discuss the implications of the theory for scholarly and practical purposes, before recommending the industry way out and the future research.

