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DEVELOPING A PRESENCE IN SOUTHEAST ASIA – AN INTER-CULTURAL CHALLENGE FOR MEDIUM-SIZED COMPANIES*

European publications provide very little coverage of the current business activities of medium-sized companies in Southeast Asia. In Europe generally, far too little is known about the Asia-Pacific region of which Southeast Asia forms part. In particular, there is little awareness of the business opportunities and risks in this part of the world, not only in the short term but also – and more importantly – in the medium and long term. The impact on the Asian region of the events which took place in New York on September 11, 2001 will not be investigated here. It will be some time yet before their consequences can be properly assessed.

Southeast Asia since 1997 – a time of radical change

From a European perspective, the Asia-Pacific region is often treated as a single, unified entity. Yet this overlooks the fact that the region includes such diverse markets as China and India on the one hand – with a combined population of 2.3 billion – and the city state of Singapore on the other, with a population of just 3.2 million. There are also huge political, economic and cultural differences: the region encompasses the communist People's Republic of China, a democratic India, and the market-oriented states which make up the Association of Southeast Asian Nations (ASEAN) – with its founding members Indonesia, Malaysia, the Philippines, Singapore and Thailand more recently joined by Brunei, Vietnam, Laos, Myanmar and Cambodia.

It is also important to take account of the great cultural diversity arising from different religions and a wide range of historical influences – influences with their roots in Confucianism, Buddhism, Taoism, Shintoism, Hinduism, Islam and Christianity.**

The Asian Crisis and its impact on market entry planning

For decades this region of the globe, with its population of more than 450 million, was the epitome of rapid economic advancement and social change[1]. In economic circles in the 1990s it was widely agreed that this was the place to be – and that anyone who failed to establish a local presence in the region would find themselves excluded from the markets of the future[2]. The "Asian Crisis" brought everyone down to earth, however: on 2 July 1997, under pressure from international speculators[3], Thailand had to float the Baht – which had previously been tied to the US dollar. The result was a series of economic and currency crises which left deep scars on the economies of the region's developing markets.

What began as a crisis in the finance and banking world soon led to political and social crises, too – as revealed by the example of Indonesia, where the downfall of authoritarian ruler Suharto was followed by persistent instability and efforts to establish a democratic regime, culminating in the country's first democratically elected parliament and state president. The Southeast Asian crisis has left its mark in the form of unemployment and poverty – in Indonesia alone more than 100 million people have fallen below the poverty line as a result.

Since 1999 a return to stability has been evident in most countries of the region – with the exception of Indonesia and Thailand *(see fig. 1)*.

Sustained economic growth can only be achieved if radical reforms of the local financial and banking systems are carried through. This alone can re-establish sound, reliable foundations for international investment.

figure 1.

Economic Growth of Asian countries

	2000	2001est	2002est
Hongkong	10,5	-1,0	2,5
Singapore	9,9	-3,0	2,5
South Korea	8,8	2,0	3,8
Malaysia	8,3	0,5	2,7
China	8,0	7,3	7,5
Taiwan	6,0	-2,5	1,5
India	5,2	5,0	5,8
Indonesia	4,8	2,7	3,7
Thailand	4,4	1,6	3,0
Philippines	3,9	3,0	3,2
Japan	1,5	-0,5	0,6

Source: Dresdner Bank, Wirtschaft International v. Okt. 2001 Daten + Program

Japan is the dominant force in the region, producing more than half the GDP of the Asia-Pacific region as a whole – with just 4 percent of its total population[4]. Japan accounts for one third of all Asian exports. However, this market continues to suffer from the effects of the "Bubble Economy", which still linger on. Efforts to remedy the situation have been in progress for 10 years now, and yet the necessary radical reforms in the banking and financial sectors, along with overdue deregulation measures, have not yet been pursued with sufficient determination[5].

In its "catalogue of urgent measures" the new government formed in the spring of 2001 does at least acknowledge that the "resolution of structural problems" is vital in order to achieve increased and sustainable growth. The banks are sitting on irrecoverable loans and loans with a high risk of default to the value of some US$ 500 billion. Japan is still in its most serious recession of the post-war era. As such the country is actually one of the causes of the Asian crisis – fuelling expectations that Japan will now take an active and comprehensive approach to dealing with its problems, i.e. stabilising its banking sector and restructuring its corporate sector.

Any crisis also generates opportunities. During the course of the Asian Crisis, conditions for international investors have substantially improved in many countries. This includes not only lower property prices and lower wage costs but also a significant relaxation of the regulations governing direct investments.

The current situation would therefore seem to offer favourable conditions for entering the Southeast Asian market:

- because currencies have been devalued and some are currently undervalued;
- because companies' stock market valuations have fallen disproportionately;
- because the domestic markets are more open than ever before, in the wake of reforms and deregulation;
- because the crisis has exposed which companies are weak and which are strong.

Indonesia: a market for the future

International investors are not exactly queuing up at Indonesia's door, given the current political instability and the half-hearted way in which reforms are being implemented. Projects in the pipeline have been shelved for the time being. And yet companies already producing in this market, and exporting from it, are reporting very good business. Involvement in the Indonesian market must form a long-term component of a company's strategy so that temporary setbacks – such as those being experienced presently, in connection with the war in Afghanistan – can be overcome. The possibilities of this huge market – including its capacity for recovery – should not be underestimated[6].

Indonesia, with its 17,508 islands, is the world's largest archipelago and the fourth largest country in terms of its population (currently 208 million). The topographical division of the archipelago, with its multitude of diverse ethnic groups, led to the development of many different cultures[7].

There is no such thing as a typical Indonesian, or typically Indonesian behaviour. Even today, peoples can be found here – as in Irian Jaya – living in the most primitive, stone age conditions. Modes of thought and behaviour vary in particular according to ethnic origin, religion and regional traditions. For all this diversity, however, two ethnic groups have a dominant influence on society and economic life throughout Indonesia: the Javanese and the Indonesians of Chinese extraction, who belong to the group known as the "Overseas Chinese" *(see fig. 2)*.

a) The Javanese:

The island of Java is one of the most heavily populated and fertile areas on earth. Together with Sumatra, Sulawesi (formerly Celebes) and Kalimantan (the Indonesian part of Borneo) it forms the group of the Greater Sunda Islands. The 110 million Javanese form Indonesia's largest ethnic group, accounting for more than half of the total population. Among the Javanese themselves there are religious differences and, in particular, significant social differences. The vast majority of the Javanese follow the Islamic faith.

The level of education on the island of Java is relatively high. Indonesia's main universities are on Java. In political terms Java has always played a key role, and administrative systems of Javanese origin have been introduced throughout Indonesia. The Javanese are the dominant force in the government, cabinet, state administration and armed forces.

b) Overseas Chinese

There are around 7 million Indonesians of Chinese origin, representing 4 percent of the total population and constituting the largest "foreign" group in Indonesia. Although they represent only a small proportion of the population as a whole, they control more than half of the private sector. In 1997 they produced 55 percent of Indonesia's GDP. They hold senior positions in the trade and service sectors and in industry. They are also widely represented in the banking world and in the financial sector in general – yet they are greatly under-represented in the public sector, in the economic and political spheres. Foreign companies particularly appreciate the services of Chinese agents and contacts in their dealings with private-sector companies and the authorities.

On the one hand the overseas Chinese in Indonesia owe their pre-eminent position in the private sector to their Confucian work ethic – a combination of hard work, thrift and entrepreneurial spirit. On the other hand both the Javanese ruling class and the Dutch

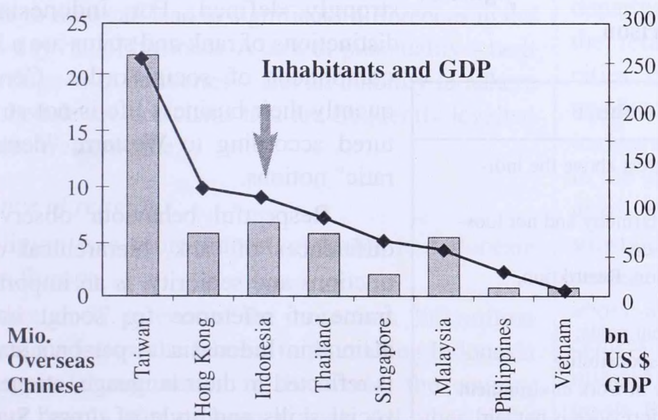
figure 2.

Social groups in Indonesia with strong influence

Source: Worldbank 1997

Javanese
- >50% of population
- Islam religion
- high level of education
- Java is political center

Overseas Chinese
- ca. 4% of population
- chinese origin
- international education
- dominance in private business



7 million Chinese make up 4% Indonesia but produce 55% of GDP (105 bn USD)

50 million overseas Chinese produced some 700 bn USD of GDP of asian countries

Comparison:
In 1997 the GDP of mainland China (1 200 million inhabitants) was 745 bn USD

colonial rulers largely confined their attention to the public sector – failing to see, at least at the outset, the opportunities that were there for the taking, and leaving the lucrative private sector more or less voluntarily to the country's Chinese immigrants. Their success in many business sectors has aroused feelings of envy and hatred among some sections of the Indonesian population and the overseas Chinese have frequently suffered cruel persecution as a result – most recently during the Asian crisis of 1997/1998.

Cultural characteristics (When Europeans and Indonesians meet)

One good way of assessing the Indonesian mentality is to compare a "typical" Western businessman with his Indonesian counterpart[8]. The differences are remarkable *(see fig. 3).*

The harmony principle

While the typical Western businessman acts on a basis of personal initiative and self-determination, his Indonesian counterpart follows cultural behavioural rules that are anchored in ancient traditions and customs. Indonesians behave in a modest, retiring way designed to enhance others' status and give 'face' to the person they are dealing with. Moreover, politeness to others creates a harmonious atmosphere and prevents open conflicts. The aim of all social interaction for Indonesians is to achieve a state of harmony.

In line with this principle of harmony, individual behaviour is founded on conformity and agreement. The basic rule of conduct is not to stand out – either by expressing unpleasant opinions or statements or by above-average personal achievement. This conformist behaviour makes situations calculable and creates a safe, predictable social environment. In order to avoid or minimise conflicts and open confrontation in the event of opposed interests, the Indonesian strives for a very formalised, ritualised mode of conduct, correct forms of greeting, a soft and moderate tone of voice, a calm physical demeanour.

One far-reaching consequence of this quest for harmony is that it is very rare to meet with an outright refusal. Questions and wishes are never expressed openly, especially when the subject in hand is an unpleasant one. The key is to second-guess your counterpart's wishes, interpret hints and identify which "yes" is in fact a refusal. Of course there are conflicts in Indonesia as there are everywhere – but here they are not conducted openly and on the surface. Many conflicts are resolved by bringing in a third party – mostly someone who is well known to both parties.

Values in international comparison

Western Cultures	Indonesian Culture
• Individualism • Longing for Performance, Challenges and Selfulfillment • Competition, direct confrontations, flat organisations • Management targets: Profitmaximisation Organisational efficiency High Productivity • Monetary Rewards • Religions are less important • Contractual obligations • Time as competitive factor	• Group interest above the individual • Security, Harmony and not loosing your face • Co-operation, Restriktion, Hierarchy • Management goals: social responsibility harmony in work environment high performance is not fair • Immaterial Rewards • Religions enjoy priority • Contracts are not binding • Things take time!

figure 3.

Emphasis on hierarchies

One thing that strikes Western managers in Indonesia is that hierarchies are very strongly defined. For Indonesians, distinctions of rank and status are a key component of social order. Consequently their business life is not structured according to Western, "democratic" notions.

Respectful behaviour observing differences of rank, hierarchical distinctions and seniority, is an important frame of reference for social interactions in Indonesia. A person's status is reflected in their language, etiquette, social skills and style of dress. Status symbols such as a company car, club memberships and mobile phones are regarded as very important. The higher an individual's status, the less they have to work themselves – and the more they have others work for them.

Emphasis on personality

Excellent relationships with business associates, government agencies, authorities and trade associations are even more important in Indonesia than in the

West. Good local contacts are important even in the run-up to a business transaction, in order to ensure access to the necessary information. It is vital to win the trust of experienced, local business contacts and employees in order to secure valuable "insider information". As a result, only those managers with an aptitude for establishing personal contacts are suited to doing business in Indonesia. Adaptability and a degree of open-mindedness are extremely important. After all, the success of an international investment is entirely dependent on the people involved.

A different view of time

In contrast to the linear, quantitative view of time that prevails in Western countries, in Indonesia time is defined in terms of the cycles of the natural world. Things take time! There are favourable and unfavourable times for everything in life. And the closure of a deal may be deferred – incomprehensibly, for the Western parties involved – in order to wait for the most auspicious moment[9].

In Indonesia the concept of long-term business planning generally meets with incomprehension. People are less focused on the future – they are concerned with making fast profits and seek to solve any problems that may arise by improvisational means. This different attitude to time can lead to significant differences in the day-to-day run of business. A lack of punctuality – be it at meetings or in deliveries – and an inability to adhere to a schedule are criticisms that are frequently levelled from the Western side.

Influence of religions

Religion is a more important factor in Indonesia than in Europe.

Although 87 percent of the more than 200 million Indonesians follow the Islamic faith, making Indonesia the largest Islamic nation in the world, the country does not have a state religion as such. All other faiths in Indonesia – including Hinduism, Buddhism and Christianity – enjoy religious freedom. The rituals of Islam, in particular, have a constant impact on day-to-day business life.

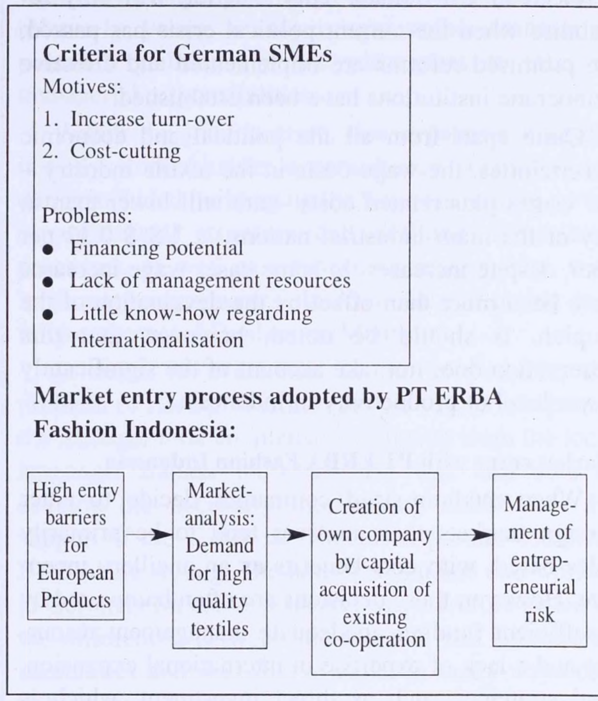
Entering the Indonesian market

Market situation and development

Until the onset of the Asian crisis in mid 1997, Indonesia was regarded as a growth market among the ASEAN states *(see fig. 4)*.

figure 4.

Market entry into Indonesia



The changes were especially evident in the retail sector[10]– in particular with the arrival of Japanese department stores (such as Sogo), which still dominate the retail districts of Jakarta and other Indonesian cities. Hypermarkets are also pulling the crowds. The traditional retail sector – small family stores, market traders and travelling merchants – is in decline, at least in the city centres. The strong growth of the economy until 1997 created a group of consumers with substantial purchasing power, comprising around 10 percent of the population. These consumers have above-average income and live primarily in the urban centres. They are open-minded, active, consumer-minded and modern, although this does not necessarily imply that they have adopted Western attitudes. They are well educated, with technical and management qualifications. The Asian crisis temporarily brought this phase of development to an end. The devaluation of the Rupiah (by as much as 80 percent), high unemployment – which also affected the middle classes – and uncertain prospects for the future led to a slump in consumption.

A market appraisal undertaken for the textile products of PT ERBA Fashion suggests that, as things currently stand, business can only be conducted in an opportunistic manner within the Indonesian domestic market – and even then only with invoicing in US dollars. The current emphasis is on exports, again invoiced in US dollars. This situation will only re-stabilise when the current political crisis has passed, the promised reforms are implemented and effective democratic institutions have been established.

Quite apart from all the political and economic uncertainties, the wage costs in the textile industry – i.e. wages plus related costs – are still lower than in any of the main industrial nations, at US $ 0.32 per hour, despite increases. In some cases wage increases have been more than offset by the devaluation of the Rupiah. It should be noted, however, that this observation does not take account of the significantly lower level of productivity in Indonesia.

Market entry with PT ERBA Fashion Indonesia

When medium-sized companies decide to enter foreign markets their motives tend to be primarily sales-based, with cost benefits as an ancillary incentive. However, these decisions are often hampe-red by insufficient funding, inadequate management resources and a lack of expertise in international expansion. And strategies such as direct investment, which is highly capital intensive, are more difficult for medium-sized companies to realise successfully than less capital-intensive alternatives such as contractual joint ventures[11].

The availability of specialist technical expertise in the domestic (German) operations of EFE Handels GmbH & Co. KG prompted the company to consider exploiting new international market opportunities by establishing its own foreign-based manufacturing operations, to complement the options open to its existing Czech cooperative venture, MILETA AS. Within Asia – with its steadily growing economies and concomitant growth of qualitative purchasing power – Indonesia was clearly the perfect location.

The idea of establishing a mill for yarn-dyed fashion shirting in Indonesia was based on the fact that this particular market puts up significant entry barriers (in the form of protectionist customs duties) for fabrics produced in Europe. This makes European products over-priced and uncompetitive. Given the manufacturing expertise available at EFE, management realised that it could produce the same quality in Indonesia as in Europe – and at competitive prices, significantly below those of imported fabrics.

A market analysis revealed that demand for such products existed. For on account of the above mentioned protectionist measures, prominent international brand manufacturers in the clothing sector (van Laack, Cerruti etc.), i.e. the next stage in the process, already had their products made under licence in Indonesia. This actually called for high-quality fabrics of a kind which could not be produced in Indonesia at the time due to a lack of technical know-how. It was this market niche that EFE had cornered before the onset of the Asian crisis (1997).

Initial contacts in Indonesia had existed for more than five years already, in the form of a contractual joint venture with a local textiles business (PT Bintang Agung). Under the terms of the contract, the German yarn-dyed fabrics specialist supplied yarn-dyeing, weaving preparation and weaving machines to Indonesia, in order to set up a mill for yarn-dyed fabrics as an additional production line within the existing industrial complex, in collaboration with German technicians. The products were to be distributed initially via the German company's distribution channels.

Two years later, however, the joint venture as such was brought to an end: interest on the Indonesian side had waned following the appointment of a new Technical Director and the company had opted to refocus its operations on its traditional grey goods business, disregarding the technically more complex business of producing yarn-dyed fabric. There was simply a lack of appreciation of this very different product – a "high-fashion product", in the parlance of the fashion textiles industry. In response, the INTERTEX group then established PT ERBA Fashion Indonesia as the final stage of the process and this company acquired the plant and current assets for the production of yarn-dyed fabrics from PT Bintang Agung. It also took over the employees working in this part of the business. The company was able to rent the necessary production facilities within PT Bintang Agung's industrial complex.

This initial cooperation with PT Bintang Agung made entering the Indonesian market much simpler because the company had access to existing resource packages – i.e. existing supply channels, tried and trusted textile technologies and established organisational and workforce structures. As for the domestic sales outlets – the five or six largest ready-to-wear clothing manufacturers in Indonesia – they were won over from the outset by the strong fashion appeal and high quality (comparable with European products but at a competitive price/performance ratio) of the designer products, manufactured initially under license. In this way the advantages of entering the market by setting up a new company were combined with the advantages of acquiring an existing operation – without the drawbacks that often accompany both options.

Bureaucracy

For an investor in Indonesia, encounters with the local bureaucracy are unavoidable[12]. The state is responsible for the regulation of investments, for import and export regulations, and for issuing the permits required in many areas. Dealing with the Indonesian administration can be a laborious business. Administrative procedures generally involve numerous visits to government departments, multiple signatures and long waits. As a foreigner, even if you speak Bahasa Indonesia, it is vital to employ reliable Indone-sians as administrative assistants for processing these matters – if only for reasons of time. PT ERBA Fashion, for example, was glad to be able to make use of the services of EKONID, the German-Indonesian Chamber of Commerce.

Building a business in Indonesia

An investigation by the DIHT[13] has shown that German companies in Asia are producing not for re-export to Europe but to serve local markets. One reason for this is the size of the Asian domestic markets and (prior to the crisis) the above-average growth in demand. In Asia, setting up an effective distribution network to supply one´s own products directly to the end consumer invariably involves problems. Full-coverage distribution is at present available in only a few sectors. However, as PT ERBA Fashion Indonesia is primarily a supplier to the clothing industry, its industrial customer group is limited and can easily be served directly.

If specific target markets are to be served successfully, a large number of conditions must first be met.

Putting corporate structures in place

Once the decision to establish a cooperative venture to develop a mill for yarn-dyed fabrics had been taken, the group had to find a German specialist who would be willing to take the risk of moving to Indonesia and building up operations there. Internally we identified an up-and-coming young manager who had the requisite experience in yarn-dyed fabric production. He, in turn, recognised the entrepreneurial opportunity he was being offered – the chance to set up a new business abroad. Detailed discussions were held within the company to weigh the risk of sending out a relatively young manager against his impressive personal qualities and his willingness to take on managerial responsibilities.

Within the joint venture, this expatriate manager initially worked under a consultancy contract – his duties included building up the business, setting up the organisational structure and defining operational processes, as well as establishing relationships with local partner companies. In effect he was acting as a fully empowered Production Manager.

In order to overcome, as far as possible, the problem of having to talk to people via an interpreter, the manager took an intensive course to learn the local language, Bahasa Indonesia. He was also able to develop the necessary intercultural skills with the support of the Technical Director at partner company PT Bintang Agung. The latter had studied and worked in Germany for some years and was therefore aware of the differences between the German and Indonesian mentalities and was able to assist in many ways that helped avoid crucial mistakes. Even before the partnership actually got under way, as a co-initiator of the cooperative project he was able to enlighten us about particular Indonesian customs. He continued to play this advisory role in day-to-day business operations. With this Indonesian as his coach, the German Production Manager acquired the necessary sensitivity to manage day-to-day operations successfully.

Following the acquisition of the yarn-dyed fabric operations by our subsidiary, PT ERBA Fashion Indonesia, set up for this purpose in 1996, once the appropriate authorisation was obtained from the investment coordination committee, BKPM, the project was transformed into a direct holding. The Production Manager was promoted to Managing Director and managed local operations in the context of group strategy. Today the company has four Indonesian departmental managers reporting to the Managing Director. One of these managers is responsible for all production operations and deputises for the Managing Director in some areas. For this position we were fortunate to be able to recruit, from a German group, an Indonesian who studied at a technical university in Germany and is used to mediating between different cultures.

In Indonesia, company structures are regarded as an extension of family structures, sharing the same protective functions. The working community is seen as a social unit, like the family, and relations in the workplace are generally very close. Recommended leadership practice is therefore to create a friendly, open, working atmosphere, establishing a good ambience in the workplace. Operational efficiency is directly related to this workplace atmosphere which also creates strong ties between employees and the company, as a result of which they are less susceptible to approaches from competitors, even if they are offered higher wages.

Human resource management

The Indonesian culture is strongly influenced by religion – Islam, but also Confucianism and Buddhism – and this culture leaves its mark on politics, social and consumer behaviour, business practices and management styles, and on relations between employers and employees. Human resource management is a key process within the company, comprising the sub-processes of recruitment, development and day-to-day human resource management *(see fig. 5).*

The aim here is not to examine all these processes in detail, but to highlight, in concrete terms, the main issues involved.

Recruitment

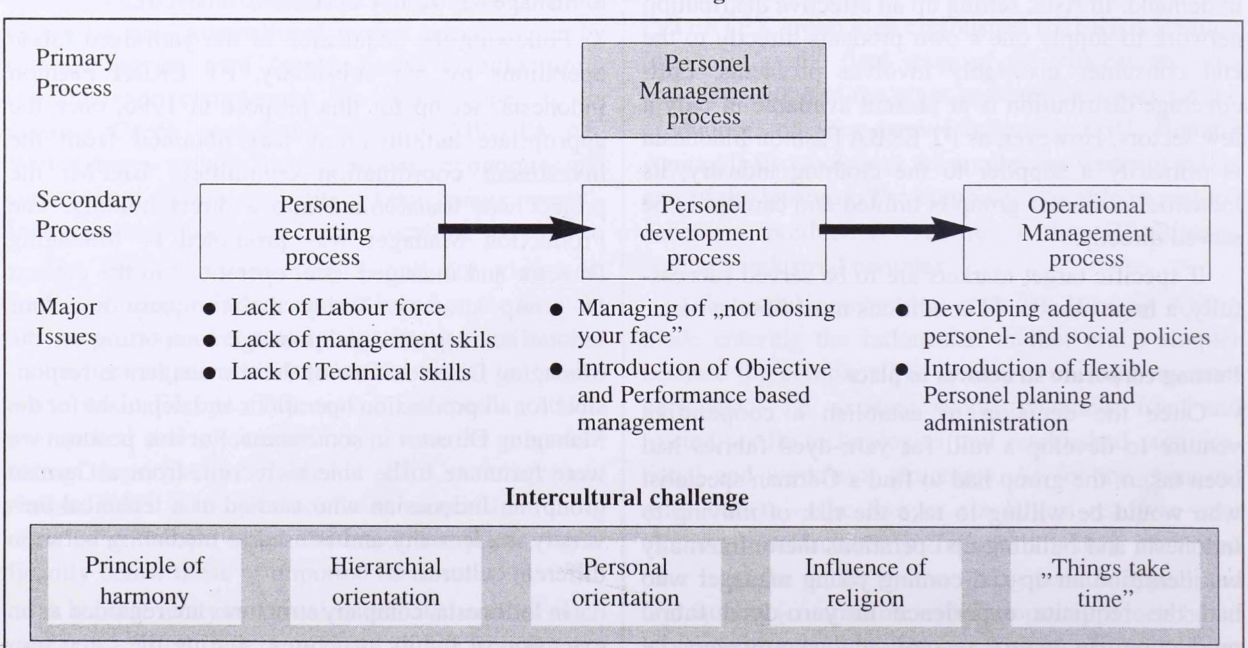
This sub-process covers the recruitment of employees and the preparation and management of employment contracts. Initially, expatriates are recruited for the development phase; then local employees are recruited.

Many of the problems relating to managing expatriates in Southeast Asia could apply to any region: motivating the employees sent abroad, their performance, and getting their families settled. Specific to this region are the difficulties expatriate managers experience in adapting to the cultural and economic conditions in Indonesia. Expatriates' main concerns relate to their re-integration and the fear that they will be simply forgotten when they are "out there". The principal sources of satisfaction are the responsibility linked with the management of an international operation and the feeling of being more independent and autonomous when working abroad than at corporate headquarters.

The decisive factor in selecting suitable international managers for Indonesia is their ability to build and sustain personal relationships. In the market entry phase the company requires politically and culturally competent pioneers who are prepared to spend a lengthy time abroad – given the time-consuming process of establishing new contacts and relationships. In the later stages, however, the usual rotation system should come into play in order to avoid excessive local integration. In the selection of managers, technical qualifications and management experience then take

figure 5.

Difficulties in HR Management



on greater priority. The number of expatriates from corporate headquarters can then also be minimised by employing increasing numbers of local managers.

Despite the huge pool of potential employees in Indonesia it is not easy for companies to find qualified staff. Firstly there is a shortage of available skilled resources – with the consequence that poaching activities, including headhunting, are rife in the middle and upper management segments of the Indonesian employment market. As a result, special efforts are necessary to ensure that Indonesian employees – who are essentially loyal by nature – establish a strong relationship with the company. One potential complicating factor here is the fact that some Indonesians are not too enthusiastic about working for a foreign company.

Secondly, Indonesia's education system is still in some respects decidedly underdeveloped, leading to a lack of qualifications in technical and management spheres. In recent years business administration courses have certainly improved, but these are still very academic, with inadequate emphasis on practical applications. Nevertheless there are already clear differences, in terms of qualifications, between the younger and older generations of business and technical graduates.

Western managers should seek local advice in the recruitment of Indonesian employees. It makes sense for the head of the personnel section to be an Indonesian – their language skills and cultural awareness will enable them to assess applicants faster and more effectively. In the interest of more effective communications it is also advisable to appoint local employees to key positions in the procurement sector and for dealings with government departments and authorities.

Employee development

The key to effective human resource development is a systematic and focused strategy for analysing potential, implementing specific development measures and then monitoring their success. However, this process of development presupposes an open discussion of personal shortcomings. Thus, the process of defining development requirements automatically leads to a "culture clash": the problem being that the employee is afraid to "lose face".

The concept of "face" is prevalent throughout Southeast Asia and leaves its mark on all human interactions. Any open discussion of employees' shortcomings is out of the question, irrespective of whether these are related to technical knowledge or personal attributes. Loss of face can have serious consequences both for the employee on the receiving end and for the person who has caused the loss of face. For example, if Indonesians come across a problem they will never ask their manager for help, for fear of losing face – by turning to their manager they would feel that they were admitting incompetence, effectively suggesting that they were not able to do their job without help.

For managers this is a tightrope-walking exercise that can only be pulled off with a perfectly balanced mix of incentives and persuasion. The key is to create transparency in all human resource development initiatives – this way managers can exploit the general emphasis on hierarchy and personality and, by applying a degree of pressure, "sell" the necessary training measures as incentives.

Day-to-day human resource management

The harmony principle is a barrier to implementing an effective day-to-day human resource strategy. Conducting conflicts openly or expressing criticism explicitly is strongly inadvisable in Indonesian plants, in the interest of maintaining a good working atmosphere. One of the subtle ways in which Indonesians avoid conflict is the non-committal answer – a refusal is almost never expressed with a brusque, categorical "No", but takes the more diplomatic form of a "Maybe".

A common characteristic of most societies in Southeast Asia is the close allegiance of individuals to social groups – their family or the company they work for. The behaviour of the individual is expected to conform to that of the group – any form of individualism is frowned upon. Consequently, recommended employee motivation practice is to develop group cohesion and a sense of belonging by establishing a common goal for the company. The performance achieved jointly by the company or team carries special weight in Indonesia. In terms of management strategies this means that the recognition or criticism of an individual's working performance should always be handled one-to-one, while team appraisals should be delivered formally and with the entire team present.

The performance of European entrepreneurs, however, is geared to providing shareholder value: at the end of the financial year they expect a good return on the capital they have employed. This requires productive performance, which must in turn be supported by appropriate human resources and labour relations strategies. After all, the provision of production factors in a crisis-hit region is not an end in itself. Employees must therefore learn to accept human resource management tools, personal targets, wage agreements and time management (holidays) as a necessary code of conduct[14]. This requires a great deal of patience on both sides.

Challenges on the controlling front

In order to reach their profitability targets, Western managers must adapt their management style to the cultural setting and the economic, social and political circumstances of the country where their business is based. While there are doubtless certain universal "management fundamentals" – such as planning and controlling systems – which are also applicable and can prove effective in Indonesia, Western managers soon realise that the management techniques that proved successful at home do not bring about the desired results *(see fig. 6).*

Controlling

The central aim of controlling operations within subsidiaries is to help the company to hit its targets and to provide the required management tools for it to do so. In the case of INTERTEX, controlling is designed to enable the parent company to make as objective an assessment as possible of the foreign subsidiary's performance. The key factor from the shareholder's perspective is that the capital employed in Indonesia should yield a satisfactory return.

INTERTEX manages its equity investments as profit centres. On the fifth day of each month, the reports for the previous month – comprising the key P & L figures in a cost variance analysis and the cash position – are delivered electronically. This reporting procedure is supported by local review meetings held by INTERTEX managers on an eight-week cycle[15].

figure 6.

Challenges to Controlling

In order to achieve the set level of profitability, operative management style has to be adopted to local settings.

- Subsidiary companies as profit centers with regular reporting
- Focus on hierarchy demands paternalistic management style with high levels of social competencies
- Delegation of decision only occasionally
- Implementation of controll mechanisms

Leadership

Compared with Western management systems, Indonesian employees do not participate in decision-making processes to the same extent. Superiors and subordinates are clearly differentiated and employees generally have little in the way of consultation rights. Moreover it is a natural part of Indonesian culture to show respect for one's elders and superiors (the hierarchy principle coming into play once again). As a result, the leadership style will be fundamentally patriarchal – but implemented in a flexible way and adapted to take account of employees' qualifications and the mutual trust that has been established. For example, the leadership style might be more authoritarian on the shop floor – while more cooperative elements and a degree of autonomy could be introduced in the sales sector. However, managers whose behaviour towards subordinates suggests that they are just "one of the team" will quickly lose respect and authority.

Indonesians see companies as an extension of their all-embracing family structures and as a result believe that companies have social duties and responsibilities. Consequently, employees expect their superiors to behave in a benevolent way and to play an active part in ensuring their welfare. The patriarch – a father figure who takes full responsibility for managing the business and bears sole responsibility for any wrong decisions – also bears full social responsibility for his subordinates and their welfare. In return the employees owe him their absolute loyalty[16].

Decision-making processes

Because of the Indonesians' need for harmony and their concern to avoid conflict, their decision-making system is fundamentally based on reciprocal consultations – which makes it very time-consuming. As far as possible, all opinions are incorporated in the ultimate decision. The aim is to reach a generally accepted consensus. A majority decision that outvotes the minority is alien to the Indonesian system.

Delegation involves relinquishing authority and responsibility to subordinate levels and is doubtless one of the techniques that forms part of any efficient management system. It also gives subordinates an opportunity to develop their skills. Yet in Indonesia, delegating responsibilities is fraught with difficulty, emanating from the fact that an Indonesian patriarch can transfer virtually no responsibility to his subordinates. If Western managers advocate delegation and seek to introduce it into their business, they will meet with very little inclination to show independent initiative or take responsibility on the part of the Indonesian workforce. Taking responsibility is seen, fundamentally, as the duty and obligation of leadership.

Delegation requires control. Even with the relatively low level of delegation in Indonesian companies a higher degree of control is recommended than in Western companies on account of employees' lack of initiative and their reluctance to report problems to their superiors. It is important to see the situation from their perspective: Indonesian employees want to give their Western manager only good news – never bad news, which would disrupt the harmony of the business! There is the tendency to hush up problems and misunderstandings or to refer to them only indirectly.

Pacta sunt servanda:
different perspectives on the law

In Indonesia, a contract alone – as the legal means of documenting the outcome of negotiations – offers little guarantee that the desired business results will be achieved[17]. From the Indonesian perspective, the decisive factor in a profitable collaboration is the relationship of trust between the contracting parties, rather than the contract itself. If it turns out that such a relationship of trust does not exist, then even a minutely detailed contract may prove of little significance.

The Indonesian legal system is based on a multitude of historic influences – foremost among them traditional customary law ("adat" law), Islamic law and Dutch civil and commercial law (adopted during the colonial era). The present-day Indonesian legal system and the legal relations governed by it draw on these sources only to the extent that they do not conflict with the constitution. It is often left to the judge to decide whether more recent laws, "Presidential Decrees" or common law should supersede the old laws.

Written law does not have a long tradition in Indonesia. Until just a few years ago, a handshake and verbal undertaking were still regarded as sufficient. Originally, Indonesian society was divided into small, comprehensible units, people lived in villages where they could be sure that there could be no avoiding their business counterparts. Everyone knew each other. The same was true for the community of Indonesian businesspeople – a small one, at that time. If a businessman broke his word he was punished by the close network of his business associates: he lost their trust and was out of business, because that kind of behaviour quickly became common knowledge and, once destroyed, a reputation could never be rebuilt.

With the growth of cities and increasing internationalisation these relationships became less transparent. From the late 1960s onwards there was increasing international involvement and business had to be transacted in accordance with international legal standards. This had its impact on the Indonesian legal system, mainly in order to take account of international investors' security needs[18]. Nonetheless the Indonesian legal system does not meet Western legal standards. Particularly in day-to-day business operations, contracts still do not have the same binding character on the Indonesian side as they do in Western countries. Negotiating everything down to the minute contractual conditions is too strict for Indonesians – they are much more concerned with building a lasting business relationship based on trust. This means that additional negotiations, to adapt an earlier contract to changed circumstances, are entirely a matter of course. This way, even details which were initially overlooked can be incorporated at a later stage without loss of face.

Enforcing contracts through civil law is something to be avoided if at all possible. This is a complicated matter and can be very costly in terms of both time and money. Even if the outcome is positive this does not guarantee either that costs will be recovered or that the disputed requirements will be met. Moreover, in Indonesia litigants must accept that corruption and political influence on the judiciary are rife. As the saying goes, "You pay a good lawyer, I pay the judge!" Indonesian businesspeople therefore have little regard for legal proceedings and the disharmony this reveals between partners. A far better strategy is to build a close and trusting relationship with all business partners. It is much simpler to deal with disagreements among friends to the satisfaction of all concerned[19].

National or international arbitration courts are more in tune with Indonesians' view of legal matters – they also arrive at decisions more swiftly than the normal legal channels.

In short: in Indonesia, written laws and contracts are held in less regard than verbal agreements.

* * *

To conclude this survey of a complex challenge for businesses it might be observed that "bridging the cultural gap" is set to become a vital component of all business activities – for small and medium-sized companies as much as for major corporations – in the years ahead.

Goethe's[20] observations say it all:

Whoever knows himself and others
knows it to be true
that Orient and Occident
to a single whole accrue.

Extract the best of both worlds
and put each to the test,
I'd advocate, while moving
thoughtfully 'twixt East and West.

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Footnotes

* This article is based on a lecture given at Budapest University of Economic Sciences and Public Administration on November 14, 2001

** Before exploring this subject in depth I would like to introduce INTERTEX HOLDING GMBH, based in Kaufbeuren, Germany, whose experiences form the basis of this article. INTERTEX is the parent company of a number of firms, with a combined total of 400 employees, active primarily in the textile industry. The group's turnover for 2000 totalled DM 104 million.

The subsidiaries are active in Europe and the Asia-Pacific region, and their operations are strictly confined to their core competencies, i.e.

- Production of yarn and grey goods in viscose (rayon), Tencel, cotton and synthetics for technical and fashion applications (MOMM GmbH, Kaufbeuren);
- Production of yarn-dyed cotton fabrics, including yarn dyeing, supplying manufacturers of shirts and bed linen (PT ERBA Fashion Indonesia, Bandung, Java);
- Procurement and marketing of collections of yarn-dyed fashion shirting (EFE Handels GmbH & Co. KG, Kaufbeuren, and MILETA AS, Czech Republic);
- Agency, converting and apparel operations: trading and agency business in the textiles and clothing sectors (ERBA FAR EAST Ltd., Hong Kong SAR and Shanghai, China).

Within INTERTEX, various levels of international involvement are apparent, i.e. exporting, cooperation with an equity investment, joint venture with subsequent acquisition of a shareholding and direct international investment (establishment of a trading company and a production company).

1 See Houben, V., Politische Kultur und die Wirtschaftskrise Südostasiens, in: Asien, 70. Jg. (January 1999), 12-28, p.12f.

2 See Schmitt, S., Erfolgs- und Mißerfolgsfaktoren mittelständischer Unternehmen in Asien, in: G. & L. Kienbaum Stiftung Gutmann J., Kabst, R. (eds.), Internationalisierung im Mittelstand. Chancen, Risiken, Erfolgsfaktoren, Wiesbaden 2000, 227-243, p. 229.

3 See Asiens Reformen bleiben unvollendet (no author), in: Handelsblatt No. 125, 3.7.2000, p.12.

4 See Posth, M., Herausforderung Asien-Pazifik, Vortrag im Rahmen der "Seeheimer Highlights 1998", Lufthansa AG, p. 13ff.

[5] See Lasserre, P., Schütte, H., Strategies for Asia Pacific: Beyond the Crisis, London 1999, p.. 23ff.

[6] See IKB Deutsche Industriekreditbank, Indonesia: A new start in the post-Suharto era, in: IKB Information, February 1999, p. 2ff.

[7] See Kunstmann, H.H., Asienkrise: Ein Unternehmensbericht aus Indonesien, in: List Forum für Wirtschafts- und Finanzpolitik, Vol, 25 (1999), 401-413, p. 402ff.

[8] See Lewis, R.D., Handbuch internationale Kompetenz. Mehr Erfolg durch den richtigen Umgang mit Gesprächspartnern weltweit, Frankfurt/Main 2000, p. 374ff.

[9] See Brandt, T., Geschäfte in Indonesien. "Kunci Budaya". Der kulturelle Schlüssel zum Erfolg, Bad Oldesloe, 1996, p. 19f.

[10] See Schütte, H., Lasserre, P., Management Strategie für Asien-Pazifik, Stuttgart 1996, p. 53ff.

[11] See Backes-Gellner, K., Huber, K., Internationalisierungsformen und ihre Bedeutung für mittelständische Unternehmen, in: G. & L. Kienbaum Stiftung Gutman, J., Kabst, R. (ed.), Internationalisierung und Mittelstand, Chancen, Risiken, Erfolgsfaktoren, Wiesbaden 2000, 175-191, p. 186f.

[12] See Brandt, ibid., p. 259ff.

[13] See Geisbauer, R., Siemsen, H., Ein Vergleich der Investitionsstandorte, in: DIHT (ed.), Direktinvestitionen in China, Indien und Indonesien, Bonn 1996, p. 75.

[14] See Kühlmann, T. M., Internationalisierung des Mittelstands als Herausforderung für die Personalauswahl und -entwicklung, in: G. & L. Kienbaum Stiftung Gutmann, J., Kabst, R. (ed.), Internationalisierung und Mittelstand, Chancen, Risiken, Erfolgsfaktoren, Wiesbaden 2000, 357-371, p. 360f.

[15] See Kunstmann, H.H., Globalisierung im mittelständischen Unternehmen, dargestellt am Beispiel der Intertex Holding GmbH, in: Wildemann, H. (ed.), Wertsteigerung von Unternehmen. Mit welchen Methoden?, Munich 2001, 395-408, p. 401.

[16] See Brandt, ibid., p. 206f.

[17] See Brandt, ibid., p. 253ff.

[18] See Geissbauer, Siemsen, ibid., p. 55.

[19] See Geissbauer, Siemsen, ibid., p. 56f.

[20] Gundert, W., Schimmel, A., Schubring, W. (ed.), Lyrik des Ostens, Munich/Vienna, 1978, p. 5.