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**American and Indonesian Management: Creating Cultural Synergy**
**by Kathryn Young**

**Japanese-Style Management Revisited**
**by Chalmers Johnson**

***Corporate Culture in Asia: Perspectives on Indonesian, Japanese and American Management***
*Foreword by Chalmers Johnson*

*One of JPRI's goals is to reestablish among educated Americans the need for and an understanding of "area studies." The contemporary American social science academy, particularly its economics and business segments, denigrates such knowledge as cultural trivia, anecdotes, mere history, or a preoccupation with esoteric languages. It contrasts with such knowledge its own devotion to "theory," usually meaning abstraction not involving any skills or any research. We at JPRI mean by "area studies" empirical, inductive, country- and culturally-specific tests of any and all claims to universal truth. The following essay by Kathryn Young offers an example of this kind of approach.*

*We also take up Indonesia in this Working Paper because it is the locale for the 1994 APEC summit meeting and because it is the centerpiece of the U.S. administration's so-called Big Emerging Markets (BEMs strategy) and its attempt to deal with Japan by going around or bypassing it. For further details on both of these aspects of Indonesia's growing importance, see (1) speech of Jeffrey E. Garten, Undersecretary of Commerce for International Trade, before the 54th annual Chicago World Trade Conference, September 20, 1994; and (2) "Kanka dekinai 'Nihon baipasu ron'" (We Can't Ignore the 'Bypass Japan' Theory), Foresight, editorial, September 1994, p. 3.*

*Kathryn Young's essay also illustrates that JPRI is not exclusively or even primarily an academic organization, as the membership of our Board of Advisers makes clear. Our focus is on policy, and we intend to serve the needs of diverse groups in attempting to understand policy toward Japan and its implications.*

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**American and Indonesian Management: Creating Cultural Synergy**
**by Kathryn Young**

The world economic spotlight is focused on Indonesia as host to the November 1994, APEC meeting. Overshadowed by its other, more visible Asian neighbors, Indonesia is unfamiliar to many American businesspeople. To the extent that it is known, often the perception is a negative one. This is due to the tendency of some groups in the U.S. to concentrate on Indonesia's human rights, workers' rights and environmental problems. It is time to look beyond those issues and focus instead on the business opportunities Indonesia offers to American firms.

With a population of 190 million people, Indonesia is the fourth largest country in the world. It has enjoyed sustained economic growth, averaging above 6% per annum over the past five years. There is a growing middle and consuming class, especially in the capital city of Jakarta. Over the past decade the Indonesian government has sought to reform the economy through a series of deregulation and debureaucratization packages. One of the latest relaxations in foreign investment requirements was announced in June, 1994. For the first time, 100% unrestricted foreign equity ownership of local projects is allowed in almost all sectors of the economy. In addition, minimum capital requirements for foreign investors have been eliminated. These new regulations are targeted at attracting foreign companies to help develop Indonesia's small and medium-sized industries, especially in high-technology businesses. A second package was issued later in June, reducing import duties on a number of items in the agricultural, health and industrial sectors. The purpose of this latest package was to lower manufacturing costs and increase competitiveness of Indonesian exports. Further reforms are expected to follow. These recent policy moves are based on Indonesia's increased need for private resources to finance its current economic development. They are also in response to increased competitive pressures in the region. Neighboring countries, including Vietnam, China, and India are vying with Indonesia to attract foreign capital, technology, and management know-how.

Indonesia's trading and investing partners are mainly other Asian countries, especially Japan. Japan accounts for approximately 20% of the value of Indonesia's foreign investment and imports, while absorbing 30% of Indonesia's exports. A wide spectrum of U.S. companies also have a presence in Indonesia, particularly those in the oil and gas, mining and other extractive industries. The U.S. government recognizes Indonesia's market potential for American companies. It was recently named by the U.S. Department of Commerce as one of the world's "Ten Emerging Markets."

Assuming that the opportunities Indonesia offers are sufficiently communicated to the American business community, and assuming that the political and economic stability that Indonesia has enjoyed over the past 25 years continues, there should be an increase in U.S. investment. As new U.S. investors move into Indonesia they will need to employ Indonesian managers. Whether through joint ventures, wholly owned enterprises or other arrangements, the success of these enterprises ultimately will depend on how well U.S. and

Indonesian managers work together. To work effectively together means recognizing cultural similarities and differences and then managing the impact of the diversity. In the field of organizational behavior, this is known as creating *cultural synergy*. As most multinational companies have learned (many the hard way), failure to understand the complexities of a culture can lead to expensive business mistakes.

Results of a recent survey of graduate business students at Prasetiya Mulya Graduate School of Management, one of Indonesia's most prestigious business schools, suggest that the MBA-educated Indonesian manager of today is in an excellent position to work with U.S. managers. Drawing upon traditional Asian and uniquely Indonesian cultural norms, these MBA managers have also embraced Western management values. Results of this survey indicate that Americans may find it culturally easier to work with modern Indonesian managers than with those from other, more inward-looking, tradition-bound societies such as Japan, China, and South Korea.

Many Indonesian businesses, particularly those in the capital city and business center of Jakarta, are in transition. They are moving away from the dominance of family-owned and controlled enterprises toward those that are more professionally managed. New professional managers are beginning to move into positions of power. Many of the management values of these new professional MBA-educated Indonesian managers fit comfortably with the business approach of many American companies. At the same time, these professional managers appear to be retaining the strongest of traditional Indonesian values. The challenge for American companies is to recognize and work through the cultural dimensions of this new emerging business environment.

**Building on Similarities**

American managers may find several areas in which they share management values with their Indonesian counterparts.
*Planning, Evaluating, and Innovating*--Indonesian MBA managers are likely to feel comfortable participating in a formal planning process, in setting and measuring goals and creating action plans. Change is acceptable when the old ways cannot meet new demands. Customs and traditions may no longer be the most important driving forces. This attitude is a break from the past in that Indonesian MBA managers may be less concerned than their traditional colleagues, and many of their Asian neighbors, with ensuring harmony at all costs. Task-completion, over harmony, is emerging as a new value among the modern Indonesian manager.

*Communication*--Survey results show that Indonesian MBA managers increasingly favor two-way over one-way communication and are beginning to be comfortable with a more direct style of communication. While direct communication may be increasing in the workplace among some managers, indirectness still remains a strong behavior trait of many Indonesians. But Indonesians are more accustomed to dealing with straight-forward and direct Americans than Americans are with the subtle and complex Indonesian. Often an American manager is expected to know what an Indonesian is thinking or feeling, even if it has not been verbally expressed. Many Americans have difficulty in this area, as most are not accustomed to dealing with non-verbal behavior.

*Recruiting, Selecting, and Rewarding*--Some Indonesian managers appear to be shifting away from an ascription toward an achievement orientation. These Indonesian managers are accepting that "what" you accomplish and "what" you know are valid differentiating criteria in the workplace. This differs from the usual Asian and traditional Indonesian tendency to value "who" you are and "who" you know. In many Asian countries, and to some extent still in Indonesia, social background and family ties are often more important than a person's qualifications for a job. Interestingly enough, in Indonesia, a number of female executives have been quite successful because they have been able to capitalize on their family backgrounds, notwithstanding their gender.

*Training*--Most Indonesians are comfortable in a contextual, experience-focused learning environment. A U.S. company will find that its training programs will be successful to the extent that they are locally relevant. Sending "canned" training programs from corporate headquarters is bound to fail. If a company wishes to use its corporate training programs, they must be adapted to take into account local operating conditions and cultural differences.

*Problem-Solving Tasks*--Americans will find that Indonesian managers are likely to favor a pragmatic over a theoretical approach. They will also find that MBA-trained managers are quite accustomed to using a "cost-benefit" approach in analyzing alternative solutions in problem situations.

**Dealing with Differences**

In looking at the areas of differences between Indonesian and American managers, particular attention should be paid to the following areas:

*Organizing and Controlling*--As in other parts of Asia, Indonesians tend to place more emphasis on the interests of the group over the individual. Many Indonesians consider the competitive, self-focused attitude of Americans as out of place. Experience of U.S. multinationals operating in Indonesia has shown that often local Indonesian managers do not want to be held individually accountable for decisions and outcomes. What may happen is that the group will coalesce around the individual to ensure that no one "loses face." A more productive approach to organizing and controlling might be for the American manager to seek input from the group, up-front. However, Indonesians are still more comfortable than most Americans with a hierarchical organization structure, and so after seeking group input, a manager may still have to make a decision himself rather than seeking to reach a consensus. The value placed on hierarchy appears to be diminishing somewhat in Indonesia; and its importance is greater in other Asian countries, such as Japan, Korea, and Thailand. Nonetheless, organizational controls--such as planning systems, goal-setting, targets, and employee rules--are more acceptable in Indonesia (and probably more necessary) than they are in a typical American company.

*Recruiting, Selecting, and Rewarding*--As American firms develop local career management plans, they need to be sensitive to the collectivism of Indonesian society. In Indonesia the emphasis remains on the group and the need for affiliation is quite high. Consequently, the desire for promotion may be less strong than in the American context. In many cases, other measures of recognition may be more meaningful. Directly evaluating an employee's performance will need to be done more delicately than in an American company. Corporate evaluation tools may need to be revised. An employee's strategy for advancement may be quite different in Indonesia than in America. For example, low-key approaches are often seen as the way to progress. An employee seeks to make the boss, or "Bapak," rather than him or herself, look good. When promotions are necessary, American companies may run into problems if they promote an individual solely on the basis of merit, without checking to ensure that the person is also respected and socially accepted by other members of the organization.

*Managing Conflict*--The American tendency to be confrontational will be counterproductive in Indonesia. Like most other Asians, Indonesians dislike stress and overt signs of emotion. They expect their superiors always to remain calm, even under the most trying of circumstances. Again, the importance of not embarrassing an Indonesian, or of not allowing him or her to lose face, cannot be overemphasized.

*Integrating Business and Social Relationships*--Indonesian managers share with many of their Asian counterparts the value placed on personal relationships in a business setting. In Chinese cultures this is known as "Quanxi," which refers to the complex and intricate network of personal relationships that pervades all aspects of one's life. Quanxi emphasizes reciprocity, trust, and implicit understanding between the parties. There is no separation between business and social in a *quanxi* relationship. Americans may feel uncomfortable with the high value placed on the personal element in the workplace.

The above guidelines are only intended as starting points for American managers. Each company must also consider its own unique corporate culture and how it fits within the Indonesian context. American companies will find that as business relationships with their Indonesian partners progress, a unique synergy and working dynamic will emerge. To the extent that American managers strive to become multicultural managers, by being sensitive to and understanding of cultural differences, the chance of success of the American-Indonesian venture will be enhanced.

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**Japanese-Style Management Revisited**
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The key insight of Japanese management as it relates to employees is that modern manufacturing and advanced services require human capital, not just skilled or unskilled workers. By human capital I mean the combined talents of people who do not understand each other in terms of manager, owner, and worker, but rather as members of an integrated group, as *shain* (staff), pooling their mental and physical capacities in a corporate venture, much like a farm household. Reliance on human capital results in fewer lost days due to labor disputes, mitigation of class conflicts, enhanced labor commitment to work, higher product quality and much greater quality control, and many other aspects of mature industrial competitiveness. During 1994, Japan still lost many fewer working days to strikes than the United States, Germany, Italy, France, or Britain.

Whereas the major capital expense in mass production is machinery, the major capital expense in high-tech manufacturing is human staff who can design, build and innovate an on-going line of products in an enterprise's primary area of technical expertise. In order to attract, retain, and motivate such expensive human inputs into production, a firm must have some degree of tenured employment, job rotation, on-the-job education, shallow hierarchies of authority, and worker internalization of the enterprise. Japanese management delivered these qualities through the invention and perfection of what has come to be called the "three sacred treasures"--lifetime employment, enterprise unionism, and seniority wage scales.

It was this managerial innovation, combined with astute industrial policy and the American alliance, all of which were achieved in Japan over a considerable period of time and after intense labor strife in the postwar's first decade and a half, that led to the country's high-speed economic growth and the achievement during the 1990s of very high levels of per capita income. In my article on the appearance of Japanese-style management in the United States [*California Management Review*, Summer 1988: 34-45], I argued that American management, in order to compete with and surpass Japanese achievements in manufacturing, needed to match Japan's commitment to human capital--if not necessarily copy Japan's particular institutions for doing so.

Six years later the Americans have regained considerable competitive ability after an intense and difficult period of restructuring. They did so as a result of Japanese competition--that is, they began to learn how to meet the challenge of Japan in terms of quality and price of merchandise. But the Japanese themselves seem to have fallen into disarray during the same period. They are no longer sure of the fundamental value embedded in their management style and are engaged in costly programs to move manufacturing overseas and cut back on domestic employment.

In order to understand why the Japanese management style was so effective at one time and is no longer so effective in Japan today, we must distinguish between the value it sought to introduce in its enterprises--the idea of human capital--and the means chosen to achieve it--the three sacred treasures. The Japanese economy has been put under great strain in the wake of the bursting of the bubble economy because of strategic mistakes made in its relations with its trading partners, and because it has confused the sacred treasures themselves with what they were intended to achieve--namely, the active involvement of labor in the success or failure of the enterprise. It is critical to the future of the Japanese economy that it do two things: first, overcome the mistakes that tend to isolate it from its trading partners and, second, reform its management style by altering only the means chosen to unleash human capital, not the value of human capital itself. The Japanese appear to be in the process of making the older American mistake--ignoring human capital while focusing only on the short-term bottom line. Let me look at each of these aspects of the problem.

It is probably true that the three sacred treasures have outlived their usefulness, although that is anything but self-evident. The problems of manufacturing at the end of the twentieth century and into the twenty-first century require even greater cultivation of human capital, but this can no longer be achieved solely through career job security (so-called lifetime employment) or seniority wages. Demographic changes and the need to incorporate women more effectively into the labor force demand that other means be found to cultivate human capital. The techniques used by Japan from approximately 1960 (the Mitsui Miike coal mine strike) to approximately 1990 (the end of the Cold War and the disintegration of the USSR) in order to retain and motivate workers are no longer the best techniques. But before we consider alternatives to them, it must be stressed that what is wrong with Japanese management today is not the three sacred treasures. It is instead the Japanese government's commitment to one-way trade. Japan's closed markets, its favoring producers over consumers, and its devotion to exporting its way out of the post-bubble recession constitute the main problems. That is what is driving the value of the yen to unprecedented levels and causing Japanese corporations to scrap lifetime employment in desperate attempts to stay afloat. Until Japan's practice of adversarial trade is ended, no change in management style alone will make any difference.

During 1993, NTT announced that it planned to get rid of 10,000 employees during the coming two years. By the end of October 1993, it had induced some 4,100 people, including 800 managers, to take voluntary early retirement. Most of these people were in the 40 to 57 age bracket, and two-thirds were switchboard operators, mostly women. This was the largest buyout executed by any company in Japan, and it cost NTT some 20 billion for the first year alone. Many other companies tried traditional solutions to the problems of labor costs--shift of production workers to sales and service, lending excess workers to affiliates, and creating subsidiaries just to employ the redundant--but nothing worked. In January 1993 Pioneer publicly told 35 middle managers that they had the choice of taking a buyout or being summarily fired. Okuma Machine Tools tried to cut its retirement age from 60 to 56 in order to force out highly paid older workers despite their lengthened life expectancies. The Ministry of Labor estimated that the rate of unemployment could go from 2.6 percent to 6 percent on the basis of current trends. Some 6.6 percent of Japan's total production has been transferred to overseas factories, with predictions that the number might well rise to 12 percent. A vicious cycle had set in: Japan's massive trade surpluses cause the yen to appreciate in value against other countries' currencies, which in turn cuts profits, puts pressure on jobs, and lowers consumer spending, thereby fueling still another export drive as the only way to stay in business and try to avoid massive unemployment, which causes the yen to appreciate still further.

The trade surpluses are the primary cause of the pressure to end job security and cut human capital. Until these surpluses are brought under control and reduced significantly, the attempt to regain competitiveness by abandoning the three sacred treasures will not only not work but will also severely weaken Japan's future productive capacity. International trade, according to the GATT treaty, is supposed to be *mutually* advantageous. But trade with Japan is only of advantage to Japan, unless one is a supplier of raw materials and then Japan wants the materials only in an unprocessed, low-value-added form. For the past twenty-five years the United States, the European Community (now the European Union), and Japan's other trading partners have sought to negotiate a more balanced trading relationship. But nothing has worked. The Japanese economy is still characterized by remarkable differences in domestic and foreign prices, and Japanese consumers are able to enjoy the full strength of the yen only by travelling abroad. As the *Nihon Keizai Shimbun* noted, prices in Japan for the main industrial products have remained virtually unchanged at the same level since the yen began to appreciate in value in 1985 (May 29, 1994, p. 3).

Because of this persistent structural imbalance in trade with Japan, during 1993 and 1994 the American trade negotiators sought to find and agree upon some indicators that would show whether Japan was actually complying with its verbal agreements to lower trade barriers. The Japanese bureaucrats balked at this, unleashing a press offensive charging that the Americans were "protectionists" committed to managed trade, and at the Clinton-Hosokawa summit in Washington in February 1994, they formally said "no." The bureaucrats did so even though the most influential politician in the country, Ozawa Ichiro, proposed in his best-selling book *Blueprint for a New Japan* (1994, p. 124) that the Americans should be given 10 percent of all transactions of each of Japan's *keiretsu*. This is a much more radical form of managed trade than any suggested by the Americans. It is increasingly well understood abroad that, in Barry Keehn's words, "Constitutional provisions aside, bureaucrats do not advise Cabinet ministers in Japan, they instruct them" (*The Times*, London, July 5, 1994). In that context the rest of the world gave up on negotiating with Japan and let the most ruthless of markets take over--namely, the market in currencies. The yen went well above 100 yen=US$1 and seemed headed toward making Japanese goods saleable only in Japan's domestic market.

The Japanese government understands these relationships, and its own advisory organs have urged on it a course of reform. At the end of May 1994, the Basic Issues Subcommittee of the Industrial Structure Council, chaired by Tsujimura Kotaro, released its report on the industrial structure needed for the next century. This was not the usual MITI "vision statement" but, according to Kyodo News, "reflects a strong sense of crisis among council members about the future course of the Japanese economy" (June 16, 1994).

The subcommittee's proposals come to the heart of the matter. Japan must shift from an export dependency that stresses such products as automobiles and household appliances to a much more balanced trading relationship "determined by domestic demand." Such a change will begin to relieve the basic contradiction of the Japanese economy--*tomeru Nihon mazushii Nihonjin* (rich Japan, poor Japanese)--and will cause Japan to absorb a much larger share of the exports from the newly industrialized nations, southeast Asia, and mainland China than it does today. The latter shift is indispensable to peace and stability in the area in a post-Cold War world. It will also greatly enrich the lives of Japanese consumers.

The subcommittee's report further urges the country to "promote mobility in labor markets," meaning a shift away from career job security for male heads-of-households toward wages based on merit rather than seniority and the opening up of executive and highly paid positions to women and men in their 60's. This will obviously entail a much greater frequency of job-hopping, which does not imply the end of a reliance on human capital, only that it must now be secured in new ways, such as through workers' ownership of capital, giving executive opportunities to women, and competition among firms.

The Industrial Structure Council's report also contends that industrial policy needs a fundamentally new orientation. "Industrial policy, which up until now has centered on the interests of suppliers (enterprises, public corporations, and so on), needs to be changed, and a new consumer-oriented point of view adopted." This would involve among others things changing the tax laws concerning severance pay and annuities, which today discriminate against people who change jobs; and a total overhaul of the capital markets and financial system in order to encourage venture capital and the financing of new industries. The report contends that it is not necessary to worry about the hollowing out of old industries, since they need structural adjustment in any case; moving them overseas is one way to do just that. Clearly, this emphasis on industrial policy indicates that Japan will need its industrial policy apparatus just as much as it has in the past, particularly the Ministry of International Trade and Industry. Political leadership must cause the bureaucrats to redefine their tasks. The political reorientation of the bureaucracy that took place in 1970 in order to overcome the problems of severe industrial pollution is an example of the kind of change that is needed today.

Looking to the future, the subcommittee lists twelve industrial and service sectors that it contends will be the basis of future economic growth. They are housing, information and communications, energy, environmental protection, medical and welfare services, advanced distribution services, international exchange activities, the cultivation of human resources, business support and infrastructure services, and the development of new industrial technologies. All of these are in line with a redefinition of Japan as an advanced, high-consumption, high-welfare-cost headquarters economy instead of an export-dependent developing country.

The kinds of reforms that the Industrial Structure Council recommends are prerequisite to any managerial reforms intended to refurbish Japan's emphasis on human capital within enterprises. It must be stressed again that the most important changes are those that redress foreign nations' grievances against Japan because of its predatory trading practices. Without changes in the overall macroeconomic environment, Japan's trading partners will be encouraged to continue to use the yen-dollar exchange rate to punish Japan. And it is this pressure that is damaging the Japanese system of human capital more than any particular industrial relations techniques. But lifetime employment and seniority wages do need to be made more flexible for two particular reasons--the need to incorporate women into the labor force and the need to adjust to longer life expectancies of all Japanese.

Japan's demography still indicates a severe labor shortage by the early twenty-first century. Japan will need to incorporate its women and older men much more effectively into the labor force than it does now. This means scrapping seniority pay scales, introducing performance-based salaries, and abolishing job quotas that discriminate against women. One of Japan's competitive weaknesses has long been that it wastes female talent more flagrantly than any other advanced industrial democracy. The Ministry of Labor noted that during 1993, in a survey of some 5,400 companies, 40 percent of them hired only males and 42 percent had no women in management. Women were kept out by sending job applications only to men and by maintaining female job quotas. On June 3, 1994, the then head of the Economic Planning Agency, Terasawa Yoshio, speaking in light of his experiences as the former head of Nomura Securities in the United States, deplored the persistence of male-dominated hiring practices and noted that Japan's competitors were much more advanced in breaking down a gender-based division of labor. But the Minister of Labor, Hatoyama Kunio, replied that "If companies do not allot a certain number of spaces for women, they will end up hiring all men" (Kyodo News, June 3, 1994).

The growth industries of the future, as identified by the Industrial Structure Council, all require fresh market analysis and innovative product designs. Enterprises attempting to compete in them simply cannot do the required analysis if they exclude from consideration fifty percent of their potential customers. They need women in executive positions. Achieving this is a prime task for managerial innovation. Company barriers against the hiring and promotion of women must be removed, but more importantly, the entire business community must demand that women be admitted to universities on a more equitable basis or undertake on its own initiative to train women in foreign universities, where they are welcome. Managers will also have to be creative in thinking of institutional means to bind women executives to the group and to bond the group together in ways other than the nightly male drinking party. The most obvious ways to do this are through financial incentives and by promoting women into the chief executive officer's position. Innovation to bring women into the enterprise can be most plausibly achieved by putting women in charge of it.

A similar problem exists concerning the graying of Japanese society. Japan's population pyramid has changed radically over the postwar period. In 1950 people aged 65 and over constituted 4.9 percent of the population. This rose to 12.1 percent in 1990 and is projected to reach 25.4 percent in the year 2025. In September 1993, the Management and Coordination Agency reported that the percentage of people over 65 was starting to double every twenty-five years. In 1993 there were 16.9 million people over 65, or 13.5 percent of the population. This was expected to reach 14 percent during 1994, or almost double the

7.1 percent of 1970. In order to keep old people working but avoid bankrupting enterprises with large numbers of old workers who must be paid seniority wages, Japan needs several reforms. These include a universal retirement system to replace individual corporate pension plans; subsidies and tax incentives for people to acquire new skills; and an open, efficient labor market. Achieving these reforms institutionally is the task for management as the twentieth century draws to a close.

The Japanese system of human capital has been the envy of the world, and its achievements have spurred innovation in all of Japan's competitors. Every ordinary student in American schools of business administration is familiar with quality-control circles, zero defect movements, *kaizen* (improvement campaigns), bottom-up decision-making, and numerous other aspects of the Japanese management style. The danger for Japan is that it may have developed into a national version of the International Business Machines (IBM) corporation. IBM is notorious as a company that in the 1960s developed a winning product and strategy, then became self-satisfied and even intoxicated with accounts of its own successes, failed to pay attention to changes in its own field that threatened to make its main product obsolescent, and finally had to sacrifice huge numbers of long-service employees who had devoted their lives to the company. IBM was one of the first American firms to commit to lifetime employment well before the Japanese made it popular. The IBM case is an important warning for Japan: pay attention to fundamentals (human capital) and innovate the means of achieving the underlying goal of high-quality products or go under. It is not yet clear whether either IBM (or the U.S. as a whole) or Japan is up to this challenge as the century comes to an end.

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