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Cross-Cultural Studies

Australian companies doing business in Indonesia: A cross-cultural analysis using Hofstede's Six Dimensions of National Cultures Model



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Context

This was an essay that I submitted for MBA unit 'Managing in a Global Context' at the University of Adelaide in 2015.

The assignment was to produce a recommendations report for an Australian business (in this case a fictional one) seeking to enter an overseas market, using academic cultural frameworks (I've used Geert Hofstede's Six Dimensions of National Cultures).

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Having captured much of the domestic market for the supply of books to school libraries, Australian book retailer Kookaburra Books is seeking to expand its business into new markets overseas that have a growing demand for English-language books for schools. One of Australia's most proximate northern neighbours, Indonesia, represents a potentially lucrative expansion option: its economy is predicted to grow to become the world's seventh largest in the next decade; English is taught universally in its schools; and it has a burgeoning middle class with growing expendable income.

At Kookaburra Books' request, we have prepared a report that provides advice about the cultural differences that exist between Australia and Indonesia and how these might impact upon the company's business operations in the new market. Using Dutch scholar Geert Hofstede's Six Dimensions of National Cultures Model, this report seeks to rationalise the cultural differences between Australia and Indonesia, and provide a series of recommendations for establishing a business presence in Indonesia.

Culturally-Divergent Neighbours

'Culture' in a national context has been the subject of an unquantifiable number of academic studies and its definition remains contentious. Hofstede's oft-cited definition suggests that culture is: 'a collective programming of the mind which distinguishes one group from another'.

Such a definition does not adequately account for the vast cultural cleavages that exist between Australia and Indonesia, two of the most culturally-divergent neighbouring countries in the world. The two nations have almost nothing in common except for the fact that they belong to the same geographical region of the world.

Australia is an advanced, US-aligned, Western parliamentary democracy that espouses the ideals of a modern, liberal society. It provides for free market enterprise and the inalienable rights of the individual. It supports a small, predominantly white Anglo-Saxon and Christian population of only 26 million people on a vast, island continent.

Indonesia, in contrast, is an underdeveloped, fledgling Asian democracy that has only recently moved away from the military-dominated, authoritarian rule that characterised the country for more than thirty years under Suharto's New Order administration. It became a republic in 1945 after wresting its independence from a succession of colonial masters, the Portuguese, Dutch, British and Japanese, and its national identity is born out of this anti-colonial struggle. It is a secular society that espouses the ideals of a centralised state ideology, the Pancasila, a set of five political and social values which provide for the collective rights of Indonesian society. It is an equatorial, archipelagic nation of over 17,000 islands supporting a culturally-diverse population of 300 different ethnic groups, 742 different languages and almost 250 million people - the fourth largest population in the world - the vast majority of whom are Muslims.

The differences between the cultures, languages, religions, ethnic composition, population size and economies, as well as the two countries' political, legal and social systems, are probably greater than are those of any other two adjacent countries in the world.

Indonesia's Economic Prospects

Despite these challenging differences, Indonesia represents an alluring proposition for growth-oriented Australian companies. The economic growth prospects for Indonesia are very positive. It has the largest economy of the 10 ASEAN countries, it is currently the world's 17th largest economy; and by 2030 it is projected to become seventh largest in the world, joining the 'trillion dollar club'.

More than 250 Australian companies already have a presence in Indonesia. Australia's two-way trade with Indonesia was worth \$14.8 billion in 2014-5, making Indonesia our 12th largest trade partner.

As its economy builds, demand in Indonesia for consumer goods and services will continue to grow, particularly for premium food and beverages, education and healthcare, financial and ICT services and tourism. Australian companies are already among the leading investors in Indonesia's resources and energy sector, but opportunities are beginning to present themselves more broadly in other industries.

Of particular interest to Kookaburra Books is the fact that education is Australia's number one 'services' export to Indonesia (\$585 million). The requirement for the supply of English-language books to support education and training programs in Indonesia represents a clear business opportunity.

Additionally, there is significant movement of students and teachers between the two countries through exchanges, partnerships and paid tertiary study. Indonesia is the most popular destination for students under the Australian Government's New Colombo Plan, an initiative to encourage young Australians to work and study in the region. Over 13,000 Indonesian students enrolled in over 17,100 courses in 2013, making Indonesia the seventh largest source of international students in Australia. Each of these fora represents a possible opportunity for the supply of English language books.

Navigating the Cultural Divide

Whilst the economic opportunity in Indonesia is apparent, Kookaburra Books will need to exercise a great deal of care with its first foray into unfamiliar territory. It is through the prism of Geert Hofstede's Six Dimensions of National Cultures Model that this report explores Indonesia's cultural complexities for an Australian business.

Dimension #1: Power Distance

Power distance, according to Hofstede, is the extent to which the less powerful members of organisations and institutions accept and expect that power and wealth is distributed unequally. Indonesia has a high score on Hofstede's model (78) whilst Australia has a low score (36).

Power and wealth are distributed unequally in Indonesia. The inequality is starkly apparent when visiting the Indonesian capital, Jakarta, where towering skyscrapers, home to some of the world's biggest corporations, adjoin desperately-poor kampung (villages) where day-to-day subsistence is the only pursuit. The juxtaposition of rich and poor is universally accepted as a way of life by Indonesians, and the relative harmony of Indonesian society, in spite of the stark disparity, is often incomprehensible to Westerners.

Indonesian society is ordered hierarchically at all levels - the family unit (with the Bapak or father as head of the family), the village (desa), school (the teacher, or guru, is a revered figure), business, and local, provincial and national government. Not only is Bapak the word for father, but it is also used to address any person in a position of authority. The commonly used Indonesian phrase 'asal Bapak senang' (or 'keep the boss happy') is indicative of the cultural predominance of the father figure in Indonesia.

Those at the top of the hierarchy wield considerable power and there are clear inequalities between top elites and those on the lower rungs of society. Unlike Australian society, many upper and middle class families in Indonesia utilise the services of one or more pembantu (a helper or maid) from the lower classes and it is not uncommon for Western expatriates living in Indonesia to have at least a driver and a housemaid.

In business, a high power distance means that employees unflinchingly do what they are told by those in higher positions. Subordinates expect to receive direction, they do not question authority and their superiors expect unconditional compliance. Managers are respected for the position they hold, not for their individual managerial or leadership capabilities. There is little direct communication between manager-employee and negative feedback is not expressly stated.

Australians working in Indonesia must ensure that they pay due deference to those in authority. The fact that power is vested in the top echelons of Indonesian society means that Australian businesses, if they hope to be successful in this market, need to build close, mutually-respectful relationships with individuals in power. This does not occur immediately, often requiring months (sometimes years) of engagement and a succession of formal and informal meetings before trust and

familiarity is established.

Business dealings are typically conducted in a highly formal manner, with the ritual exchange of business cards and an extended period of pleasantries before engaging in business discussion. Handshakes are limp and prolonged. Small tokenistic gifts are often given - always with the right hand - as a sign of respect. Being deferential, soft tones, an open stance and a friendly demeanour are critical, regardless of the situation.

Dimension #2: Individualism versus Collectivism

Recognised in both the Hofstede model and other cultural models is the dimension of individualism versus collectivism. This dimension recognises the degree of interdependence a society maintains among its members, and the degree to which individuals are integrated into groups.

Australia has a highly individualist culture, in which people typically look after their own interests and those of their immediate families. In business, individuals are expected to stand on their own feet, to work independently without close supervision, and to demonstrate initiative and resourcefulness. Individuals are rewarded and promoted on merit.

By contrast, Indonesia is a collectivist society. There is a clearly defined social framework and hierarchy in which individuals must operate, and conformity is expected by the collective. Individual pursuits are subordinated to those of the group and there is an emphasis on 'we' and 'us', rather than 'I' or 'me'.

Accordingly, the directive style of management and communications that is appropriate in the West is not effective in Indonesia. Decision making frequently occurs through consensus and senior managers are inclined to discuss rather than direct. The resultant lack of clear direction often brings about issues and incidents that are unacceptable to Western managers - a lack of punctuality, early departures from work, absenteeism, non-adherence to safety procedures, and in some cases theft and misuse of equipment or stock to supplement wages.

Australians working with Indonesians need to be aware of the tendency towards consensus decision-making and the deprioritisation of work tasks in favour of culturally-important family and social pursuits.

Attempting to impose a decision or to issue a directive - a common solution in a Western country - will generally have an adverse effect and hinder the development of a mutually-trusting relationship. Patience, tolerance and a friendly demeanour are essential elements in an effective cross-cultural relationship with Indonesians.

Dimension #3: Masculinity versus Femininity

Hofstede's third dimension, masculinity versus femininity, does not relate explicitly to the male and female genders, but rather the traditional 'masculine' traits of authority, assertiveness, performance and success, as opposed to the feminine traits of relationship-building, ensuring quality of life, service and welfare. (One wonders whether the modern day shift to gender equality renders this dimension redundant, at least in its nomenclature).

In Indonesia, hierarchical status and the trappings that accompany high office in society are sought after and revered. With increased economic development and capitalist pursuits in Indonesia, this trend to Hofstede's conception of 'masculinity' will continue, particularly among the country's elites.

However, as a society at large, Indonesia tends more to the 'feminine': people work to live; they are focused on family first; individuals are comfortable with their lot; managers seek consensus in decision-making; conflicts are resolved through compromise and negotiation; work flexibility and free time are favoured over material rewards.

Australians, by nature, are more 'masculine' in their work practices. They are task oriented, results-focused and expectant of individual rewards for quality work. Australian businesses attempting to achieve positive fiscal results quickly in Indonesia are often frustrated by a workforce that puts their own social and family interests above those of their employer. Accordingly, Australian businesses operating in Indonesia need to be mindful of the extra time required to entrench relationships and to establish collective will.

Dimension #4: Uncertainty Avoidance

Uncertainty avoidance, according to Hofstede, is a society's tolerance for uncertainty and ambiguity, and to what extent a culture programs its

members to feel either uncomfortable or comfortable in uncertain situations. Uncertainty avoiding cultures try to minimise uncertainty through the imposition of strict laws and rules. People in uncertainty avoiding cultures are characterised by strong emotions and nervous energy.

Uncertainty accepting cultures, on the other hand, are more tolerant of alternative viewpoints and have fewer laws and rules to constrict this freedom. People in these cultures are more comfortable in their being and less likely to express strong emotions.

Hofstede's study suggests that Indonesians have a low preference for avoiding uncertainty and that this is essentially on a par with Australians (51 versus 48). Indonesians do generally prefer stable and predictable conditions over ambiguity. Indonesians are known for maintaining a peaceful and untroubled existence and not showing any outwardly-visible adverse emotions.

Regardless of whether an Indonesian feels anger, he/she will remain polite and continue to smile, bottling up any emotions internally in order to avoid conflict. In business, workplace harmony is extremely important and any situation that threatens the status quo will be suppressed or avoided. Western managers have traditionally found it very difficult to 'read' the sentiment of their Indonesian subordinates, as there is no outward indication of dissatisfaction, but often faux contentment instead.

Where uncertainty exists, there is an acceptance of fate and a belief that the future rests in the hands of God - the Islamic saying 'insya Allah' ('god willing') is used universally in Indonesia, both as a nod to divine intervention and as an excuse when things go awry. To Westerners, this apparently blithe fatalism can be interpreted as indifference, disinterest or a failure to accept responsibility.

An example of an Indonesian concept that is seldom understood by Westerners is jam karet - literally 'rubber time'. This infers that time in Indonesia is a flexible commodity that can be stretched at will. Arriving two hours late for a meeting is not uncommon in Indonesia, and such lateness is routinely accepted without further question by the receiving party. Lateness is often blamed on an uncontrollable external factor, regardless of whether it was a factor or not, enabling the latecomer to

save face. For example, it is common for Jakartans to blame the traffic on their lack of punctuality - ada macet (there was a traffic jam).

Dimension #5: Long-Term versus Short-Term Orientation

According to Hofstede, long-term oriented societies foster behaviours oriented towards future rewards, such as saving and investing, self-improvement, persistence and adapting to changing circumstances. Short-term oriented societies foster behaviours that emphasise the past and the present, such as national pride, respect for tradition, preservation of 'face' and fulfilling social obligations.

Hofstede's findings indicate that Indonesia is a long-term oriented society, although evidence points to the contrary. Despite recent development and modernisation, Indonesia remains a traditional, hierarchically-ordered society with communitarian values and national pride that stems from its historical struggle for independence.

Indonesians, and in particular the Javanese ethnic group which makes up a good proportion of the population, are a very traditional, proud and face-saving people. Care must be taken to ensure that an Indonesian is not singled out or humiliated in front of others, as this represents the most galling and demoralising of circumstances for an Indonesian. Indonesians will do everything in their power to avoid such situations, even if it means lying or absconding.

The need to 'save face' is evident in routine conversations between managers and subordinates: asking an Indonesian if they have completed an assigned task will always elicit an affirmative response, even if the task has not been completed. Indonesians are inclined to respond in the affirmative or in an indirect manner when asked a yes/no question, in order to avoid further scrutiny or to bring attention to failings. Indonesians are more inclined to answer 'not yet' (belum) when quizzed about task completion, rather than the more definitive response of 'no' which infers that the individual has missed a deadline and is at fault. Australians working in Indonesia need to adopt a questioning technique that elicits the necessary information without singling out the individual.

Another trait of Indonesian society which can be attributed to ingrained tradition is the propensity to engage in official corruption. A hallmark of

the Suharto years, the current administration continues to battle the scourge of corruption at all levels of society, from the uppermost echelons of the Indonesian government, to the local village policeman accepting bribes in lieu of a traffic fine. Corruption remains a major issue in Indonesia and Australian companies that do business in that country may encounter ethically-challenging situations where corruption is present. Indeed, the payment of small bribes, pay offs and gratuities is an accepted practice in Indonesian society as a means to supplement meagre wages. At the other end of the scale, corruption can involve large under the table payments by companies to officials in order to win major government contracts. The consequences for companies that involve themselves in corrupt activities can be dire, both in Indonesia and Australia.

Dimension #6: Indulgence versus Restraint

Indulgent societies, according to Hofstede, are those that allow relatively free gratification of basic and natural human drives related to enjoying life and having fun. Restrained societies are those that suppress gratification of needs and impose strict social norms to constrain them. On Hofstede's scale, Indonesia is a 'restrained' culture (38), whilst Australia is an 'indulgent' culture (71).

Much of the 'restraint' in Indonesia stems from the predominance of the Islamic religion in Indonesian society. Islam arrived in Indonesia over 700 years ago, introduced by the traders from India and the Middle East. Today up to 88 per cent of the total population of Indonesia are Muslim (albeit mostly moderates), making it the largest Islamic community in the world.

The Islamic faith requires a great deal of individual, and by extension societal, restraint: Muslims pray five times a day; they must attend the mosque on Fridays; they are required to fast during daylight hours in the holy month of Ramadan; there are strict and highly conservative dress codes for men and women; and they are not permitted to indulge in alcohol.

Australians working in Indonesia need to ensure that their own personal conduct is in keeping with Indonesian societal expectations. This includes wearing appropriate clothing and footwear; respecting the right to religious observance; and the appropriate service and

consumption of food and alcohol in accordance with religious requirements.

Recommendations

Indonesia represents a potentially lucrative market for Kookaburra Books, if it is able to successfully navigate the cultural complexities of that country. The following recommendations are provided:

- *Undertake a detailed cost-benefit analysis.* Any attempt to enter the market should not proceed without a detailed analysis of the associated costs and benefits, recognising that the return on investment will not be immediate and that the development of productive business relationships in Indonesia requires significant time, money and allocation of resources.
- *Get the right people.* Success or failure will ultimately come down to the ability of key personnel at Kookaburra Books' to establish and maintain strong, trusting business relationships with their Indonesian counterparts. The company should ensure that it has personnel with the appropriate temperament and skills to succeed in a cross-cultural context.
- *Partner with locals.* It is strongly recommended that Kookaburra Books partners with a local agent in Indonesia or obtains a strong referral or endorsement from an Indonesian-based business as its initial entry point into the Indonesian market. Attempting a foray into this market without local assistance will likely prove fruitless.
- *Patience and tolerance.* Once Kookaburra Books has entered the market, it will be necessary to proceed slowly and recognise that the Western desire for immediate results has no place in Indonesia. Financial return expectations must be kept in check in order to succeed over the course. Employees must build trust and respect; employ sound open communication; be tolerant of communitarian and religious values that are seemingly at odds with business pursuits; and treat the workforce as a collective, rather than singling out individuals.