

**MANAGING A COMPLEX ENVIRONMENT –
SOCIAL CULTURAL PERSPECTIVES
THE CASE OF INDONESIA**

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ABSTRACT

The study explores social institutions of Chinese-managed organisations in Indonesia as products of their social-cultural values and historical trajectory developments using information (knowledge) management perspective. For comparison analysis, Chinese-managed organisations are compared to Javanese-managed organisations as the latter being the dominant cultural group in the country. This study is approached based on the idea that agents' social cultural values have impacts on their managerial values and preferences as well as business practices, which are reflected in their social institutions as strategies in dealing with complexity of information processing activities – as proposed by Boisot and Child (1999). I find this concept interesting and very useful in enhancing our understanding of various strategies in managing a complex environment that arises out of social interactions among agents of different social cultural backgrounds. However, the concept has never been empirically studied in the Indonesian context. Therefore, a study was carried out in Jakarta in July 2004 using questionnaire as the main survey instrument. A sample of Indonesian managers (n=334) was selected representing different social-ethnic groups, professions, and organisations in Indonesia, and 66.17% (n=221) questionnaire was returned. Data is processed by SPSS (Statistical Package for the Social Sciences) and analysed using exploratory factor analysis to discover the main constructs or important dimensions of managerial values and business practices in Chinese and Javanese-managed organisations. Because there was no instrument available that tap the exact same construct needed to be measured, the questionnaire used in this study was constructed based on a similar instrument developed by Adam G. and Vernon H. (2004) on business cultures and practices in Thailand with some modifications. The study shows that while Chinese tend to engage in clan/network social institution - as suggested by Boisot and Child (1999); Javanese tend to engage in fief social institution as their strategies in dealing with a complex social environment. This suggests Chinese and Javanese managers have different strategies in managing the complexity of information (knowledge) exchange, which arises in social interactions. This may be used to explain why Chinese in Indonesia tend to be more successful economically. In general, statistical findings did not appear to show significant results. Both Chinese managed and Javanese-managed organisations share similar characteristics in almost every aspect of their managerial values and preferences and business practices. The only factor that has statistical significant

difference is factor: ‘Prestige and security,’ suggesting that this variable is more important for Javanese than Chinese managers (for example, ‘to work in an organisation that is large, well-known and prestigious’). However, the discovery of similar cultural issues between the two social cultural groups also provides an important unexpected finding for future studies. Hence, the idea of social institutions as products of social cultural values helps us understand why managers of different social cultural values have different organisational strategies. Hopefully, the study may also be helpful for enhancing our understanding on business practices in the socio-cultural perspectives that prevail in Indonesia as such that it may be used for future research to build dimensionality of business practices in different contexts.

Keywords: self-organised and adaptive social system in a complex environment; information processing complexities, Chinese and Javanese-managed organisations, KKN (Connection, Collusion and Nepotism), Confucianism, familism, pragmatism, guanxi-based network, nested hierarchy, and fief social institution.

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I. INTRODUCTION

1.1 Background

Discussion about Chinese businesses in Indonesia is interesting. Even though there are only around 6 million ethnic Chinese (Chinese Indonesian) in the country, or +/- 3% of total population (Suryadinata, 1997), many of them have become prominent business practitioners in the past four decades since the 1960s (Schwarz, 1994; Diao and Tan, 2001; Suryadinata, 2001). Some Chinese business corporate groups have also expanded their businesses internationally, e.g. BCA, Sinar Mas, and Lippo groups. What is more interesting is that, despite the fact that historically Chinese in Indonesia have gone through a state of continuous discrimination since the colonial era, yet they managed to adapt to the changing situation and overcome the problems. They even controlled the majority (67%) of the national economy before the Asian financial crisis in 1997 (Suryadinata, 2001; Husnan, 2001).

Among all Asian countries affected by the Asian 1997 financial crisis, Indonesia was the most seriously affected (Soesastro, 2003). It caused a number of large business groups, including Chinese-managed corporate groups, to undergo a major restructuring program due to severe financial problems caused by heavy foreign exchange debt which was aggravated after July major devaluation against the Rupiah by almost 400% (Husnan, 2001; Kingsbury, 2001; World Bank, 2003). As a result, many firms were forced to close down, creating lay-offs in many labour-intensive industries, which in turn, increasing social instability and frustration. Due to Chinese crucial roles in Indonesian economy, their bankruptcies were mostly blamed for creating major lay-offs in various sectors.

Before the crisis, many Chinese businessmen were believed to be successful because they had enjoyed a lot of business privileges by establishing good relations (*guanxi*) with influential government officials, allowing them to build business empires not only nationally, but also internationally. These groups had developed relations with political elite for obtaining scarce information, as well as for government protection and privilege (Sato, 2003). Such practice has been considered as negative and popularly termed as

'KKN,' which stands for Koneksi, Kolusi dan Nepotisme (or Connection, Collusion and Nepotism). During this Soeharto Era, KKN was not only implemented by business practitioners, but also by high ranking government officials, many of whom belong to the Javanese ethnic group (Goodfellow, 1997). KKN has been considered not only as unfair business games for those who do not belong to the network, but has also been regarded as eroding the honesty of government officials (Schwarz, 1994; Husnan, 2001). Only certain people (group of people) who are involved in *guanxi*-network circle enjoy economic success, creating increasing economic disparity between the poor and the rich (Schwarz, 1994; Kingsbury. 2001). As a result, there was increasing economic envy and social resentment towards Chinese Indonesians.

Thus, during the crisis, social resentment against Chinese reached a peak. They were blamed for causing the severe economic crisis in the country (Diao and Tan, 2001). Following the crisis, continuous social and political unrest put Indonesia into a chaotic situation, causing massive riots in several big cities in May 1998, just a couple of days after president Soeharto was forced to step down (Suryadinata, 1999). During this riot, Chinese Indonesians became the main target of anger. Many Chinese shops were looted, damaged and burned down, and many of Chinese women became victims of harassment, rapes and physical abuse. It was a very devastating experience for many Chinese Indonesians that it created Chinese 'exodus' as well as 'capital flight' to neighbouring countries (Suryadinata, 1999). This includes investments to China. By 2001, compared to other ASEAN countries, Indonesian investment in China was the largest (Xin Hua, Sep. 07, 2002).

The continuous political and social unrest in Indonesia not only caused major drawbacks of Chinese Indonesian business activities, but also created a negative climate for Foreign Direct Investments (FDIs) into the country. Moreover, it has also pushed several big foreign labour-intensive companies to be relocated out of Indonesia, including Sony Corporation in 2003. Thus, increasing unemployment and social instability were inevitable, which in turn had decreased Indonesian competitive advantage (Soesastro, 2003). At the same time, the fast economic development in China had attracted huge

amount of FDIs from all over the world. In 2002, China was the single largest recipient of FDIs with the total amount of 52.7 billion UD dollars, surpassing FDIs in the US (Husin, 2004). Since China opened up its market in 1979, its super economic power cannot be overlooked. Realising those problems, Indonesian government attempted several approaches for national economic recovery, including inviting the fled Chinese Indonesian to return to Indonesia to participate in national economic development again. For example, President Megawati Soekarno Putri (1999-2004) in 2002 called off the legislation that banned Chinese language and Chinese traditional festivities which was stipulated in 1967. This strategy is obviously attempted to make Chinese Indonesian to 'feel at home' (Suryadinata, 1999). Direct trade relation between Indonesia and China, which was re-opened in 1985, and investment relationship between the two countries was also intensified after the crisis (Soesastro, 2003).

Moreover, under the new government, the newly elected Indonesian president, Susilo Bambang Yudhoyono has made a strong commitment to push forward trade liberalisation and joint efforts for the establishment of trade area between the 10-nation ASEAN and China (President's Decree No. 48, 2004). The president also appointed DR. Mari Elka Pangestu, a prominent Indonesian Chinese economist to be the country's first non-indigenous trade minister. When this study was attempted, resentment towards Chinese in Indonesia had slightly decreased. Thus, the timing is now more favourable for analysts to have a closer look at Chinese business practices in Indonesia and hopefully can give insights to understanding why Chinese Indonesian are successful in business.

1.2 Problem setting

Given the continuous hostile and violent environment for Chinese Indonesians, many have proven successful in overcoming the problems. What are actually the contributing factors to economic success of Overseas Chinese in Southeast Asia, including in Indonesia? Many believe their successes owe a lot to their historical backgrounds, as well as their social-cultural values. For example, their entrepreneurial success has been attributed to Confucian values of diligence, order, filial piety and familial responsibility,

which promoted prudent use of resources and capital accumulation (Redding, 1990). Redding suggests that these social-cultural values influences the Overseas Chinese rules of action, which are based on work ethics, money and modesty, and pragmatism (Redding, 1990). Moreover, scholars have also identified *familism* and *guanxi*-network as two other salient characteristics of Chinese economic and social-cultural activities in Southeast Asia (Hamilton, 1996; Tsui, Fahr and Xin, 2000). *Guanxi*-network is so pervasive in Southeast Asia that Hamilton calls the capitalism in this region as ‘network capitalism’ (Hamilton, 1996).

Why is *guanxi*-network pervasive in Chinese society? Boisot and Child (1999) suggest *guanxi*-network is pervasive in Chinese society due to Chinese social-cultural values, which is based on Confucian teachings that treat family as the most important block of an ordered society. As a result, all efforts have to be focused for the benefits of family and all decisions have to consider all family members. Confucianism is embedded in Chinese society that it has inclined Chinese to interact socially as a clan/network, in which all members are inter-connected and interdependent family members. As a result, *guanxi*-network is an institutionalised form of social interaction, and thus pervasive in Chinese society. However, social institution that is based on *guanxi* (durable, personalised and familial relationship) creates a complex relationship. It makes it difficult for Chinese to be totally independent in making decisions because all members in the network are ‘family’. Thus, such a relationship creates an inevitable complexity. As a result, in their way of dealing with the complex and violent environment, Chinese tend to absorb the complexity ‘through the creation of options and risk-hedging strategies; and by holding multiple and sometimes conflicting representations of environmental variety, which in turn, create behavioural plasticity/flexibility’ (Boisot and Child, 1999 pp. 248). In other words, by cooperating loosely with a number of other organisms in *guanxi*-networks, provides agents with a mechanism to share information and risk; and enhances agents’ capability to deal with a wider range of environmental contingencies.

Boisot and Child's ideas of social institutions as products of social cultural values is very useful in explaining the impact of managers' social cultural values on organisational strategies in dealing with a complex and unpredictable environment which are reflected in their business practices. However, the concept has never been empirically analysed in Indonesian context. For this reason, an empirical study (a survey) was carried out in Indonesia in July 2004 to analyse managerial values and business practices in different organisations in Indonesia.

The study is an attempt to find some explanation for the economic success of Chinese-managed organisations as compared to non-Chinese-managed organisations in Indonesia. In this study, Chinese managed organisations are referred to as organisations with majority of their senior managers having Chinese ethnic background. In line with that definition, non-Chinese-managed organisations are referred to as organisations with majority of its senior managers having non-Chinese ethnic background. Because the majority of people in Java (where this study is carried out) and the Javanese people comprise 45% of Indonesian total population, the study has focused on Javanese managers/businesses, as the dominant cultural group to use as a comparison to the Chinese organisational model.

In the past, several scholars have attempted to study the pervasiveness of *guanxi*-network in Southeast Asian countries and its relations with the region's high economic development, (e.g., Wong, 1988; Redding, 1990; Hamilton, 1996). However, the unstable social political issues and discrimination towards Chinese ethnic group in Indonesia had prevented scholars from having a closer look at Chinese business practices in the country; and many Chinese Indonesians are reluctant to share their business practices.

Other scholars had attempted to analyse business practices in Indonesia in general, not particularly on Chinese-managed organisations. They were for example, Hofstede (1982); Young (1994); and Larasati and Habir (1999). However, those studies were

approached based on Western theoretical concepts not on Chinese backgrounds. As a result, there are limited resources for further studies on Chinese business practices in the country; and therefore the underlying reasons behind Overseas Chinese successes in Indonesia have never been revealed. This study is attempted to find answers to the following research questions.

1.3 Research questions

Why are Chinese Indonesians successful? What are actually the contributing factors to their successes? Are they successful mainly due to KKN, or rather, their institutionalised social interactions which allow them to be adaptive in a complex and unpredictable environment as suggested by Boisot and Child (1999, pp. 248)?

1.4 Research Objectives

The objectives of this study are:

1. To enhance our understanding of several key issues on managerial values, business culture and management practices of Chinese and non-Chinese-managed organisations in Indonesia. The study is approached using social cultural perspectives of different ethnic groups in Indonesia and the country's historical trajectory development.
2. To assess how these values, cultures and practices might differ in different organisations – in terms of the social cultural backgrounds of influential organisational decision-makers, i.e. senior managers.

1.5 Research Contribution

This study explores business practices in Chinese-managed organisation in comparison to Javanese-managed organisation based on Chinese and Javanese social cultural values, as well as their historical trajectory developments in Indonesia. Hence, may be helpful for enhancing our understanding on business practices in the socio-cultural perspectives that prevail in Indonesia. Hopefully it may be used for future research to build dimensionality of business cultures and management practices in different contexts.

1.6 Research overview

Chapter one describes the overall contextual backgrounds of the study, including research questions, objectives and contribution. Chapter two reviews the basic conceptual background of social institutions. Chapter three covers Chinese and Javanese social-cultural values as well as their historical trajectory developments in Indonesia and relate those to their business practices. Chapter four describes the methodology of the study. Chapter five discusses the research findings and finally chapter six covers the interpretation of the research findings, its theoretical and practical implications, suggestions for future research, as well as conclusion and summary of the whole study.

II. CONCEPTUAL BACKGROUNDS

The chapter is divided into two sections, each of which describes the underlying concepts of the study: Organisations as self-organised and adaptive social systems in a complex and unpredictable environment; and information-processing complexities and social institutions.

2.1 Organisations as self-organised and adaptive social system in a complex environment

By treating organisations as self-organised and adaptive social systems in a complex and unpredictable environment, Boisot and Child (1999) suggest that agents from different social cultural backgrounds have different ways/strategies of dealing with the complexity, which are reflected in their institutionalised social interactions.

The idea of organisations as self-organised adaptive systems in a complex and unpredictable environment actually originates from complexity theory, which has been very much discussed in the studies of nature and science. Where many scholars have sought to find answers about the origin of nature and life and how the living systems organise themselves (i.e., self-organise) in an evolutionary (adaptive) way. In the attempt to find answers to this question, complexity theory has been used, among others, in ecology, biology, chemistry, physics, mathematics, and computer science.

Since the 1960s, many scholars have attempted to apply this theory in the organisational context, although not always explicitly under ‘a complexity’ heading. These scholars, are for example: Kauffman (1995); Burn and Stalker (1961); Etzioni (1961); Wheatley (1994); Stacey (1995); Morgan (1997); Rosenhead, (1998); Griffin, Shaw, and Stacey (1999); Boisot and Child, (1999); Cone and Tian and Everett (2002); and Cone and Everett (2003), to name a few. However, despite the increasing number of studies in the field, very few empirical studies have been conducted across cultures. For example, Boisot and Child (1999) have attempted to analyse the differences of business practices of Chinese organisations and Western (American/European) organisations operating in China. Cone and Everett (2003) have also attempted to evaluate the impact of information asymmetry and management control issues in a Sino-French IJV in China.

We know that the nature (both living and non-living systems) are highly complex systems, within which, numerous elements/parts are interrelated, interconnected and interdependent. The state of complexity arises as elements/parts interact with each other (Capra, 1996) and exchange “*energy*” in an interdependent way (Wiener, 1967). However, organisations are not natural systems, but rather *social* systems, in which interactions among individuals are more loosely coupled than natural systems, making social systems more complex than natural systems. They are more loosely coupled and complex for several reasons. First, interactions among individuals are primarily *informational*, rather than *energetic* (Wiener, 1967; Boisot and Child, 1999). This means, unlike the natural sciences where it is the fundamental processes of life itself that are being studied, in the organisational context we have entered into the interpretive realm of language in all of its symbolic and tacit dimensions. Human agents interact with others by exchanging information in either written or spoken form. In both written and spoken communication there is a reduction in the amount of information that is transferred because each individual has his/her own subjective understanding and experience that can only be accessed by that individual. Any communication to another person involves a reduction in experiential richness of that subjective experience. Which means that much that is tacit (unspoken) can be assumed but not verified. Boisot (1995)

proposes a way of classifying this loss of tacit information in the communication act, as a process of codification and abstraction that is essential (and inevitable) in the process of information diffusion. Boisot (1995) argues that despite the fact that each individual has their own idiosyncratic abilities in processing information, social institutions shape such processes, thus, within a particular social setting some tacit knowledge is shared by members of that social group making the information sharing potential of that social group more complex than the information sharing possible between different social groups. So we can say that in a given social group individuals within it are loosely coupled (being individually isolated in their subjectivity) but have the capacity for a more complex (a mixture of individual and socially derived) shared culturally mandated perspectives.

As Nonaka et al, (2000) and Holden (2001) have argued, agents process and give meanings to information differently, depending on their unique social cultural experience and knowledge, which has accumulated over time in their interactions with other individuals according to social rules and norms of their social milieu (Nonaka, et al, 2000; Holden, 2001). As a result, information means different things to different individuals, especially if they come from different social cultural backgrounds. Second, information that is communicated and transacted in social systems is mostly of tacit - has low level of codification and abstraction (Boisot, 1995; Nonaka and Takeuchi, 1995). It is 'personal, context-specific, and therefore hard to formalize and communicate' (Boisot, 1995). For example, facial expression is difficult to be codified because it is tied to the senses, skills in bodily movement, individual perception, physical experiences, rules of thumb (i.e. social norms), and intuition (Boisot, 1995). This makes tacit knowledge difficult to be described to others (Nonaka et al., 2000).

If information exchange in human interactions in social systems is complex, how do we measure information processing complexities?

2.2 Information-processing complexities and social institutions

Boisot and Child (1999) suggest there are two quite different, yet complementary approaches to complexity in information processing. The first approach deals with the content of information flows. It is referred to as *cognitive* complexity, which can be measured using the dimensions of *codification and abstraction*. Information that is highly codified/abstract i.e. more explicit, has lower cognitive complexity. The second approach deals with the density and variability of interactions among coupled agents. It is referred to as *relational* complexity, which can be measured through the dimension of information *diffusion*. Relational complexity increases in one of these two ways. First, it increases as relationship intensity among interacting agents increases. Second, it increases when the total number of interacting agents increases (Boisot and Child, 1999). The more intensive the relationship among agents, the more complex it is because it is difficult for agents to make decisions independently. Thus, there is a trade-off between cognitive and relational complexity.

The overall complexity is managed either by increasing information codification/abstraction to allow higher diffusion; or by reducing information codification/abstract to allow intensive relationships among sizable number of interacting agents. These two strategies are reflected in agents' institutionalised social interactions as products of their social cultural backgrounds. According to Boisot (1995, 1998); and Boisot and Child (1999), there are four types of social institutions: bureaucracy, market, fief and clan/network. Each of these social institutions has different level of complexities, as well as different cultural characteristics (table-1 and table-2).

Social Institutions	Relational Complexity	Cognitive Complexity	Overall Transactional Complexity
Markets	High	Low	Medium
Bureaucracies	Low	Low	Low
<i>Fiefs</i>	Low	High	Medium
Clans	Medium	High	High

Table-1: The complexity of social institutions

<p>Undiffused Information</p> <p style="text-align: right;"><i>Codified</i></p> <p>Bureaucracies</p> <ul style="list-style-type: none"> ▪ Information diffusion limited and under central control ▪ Relationships impersonal and hierarchical ▪ Submission to super-ordinate goals ▪ Hierarchical coordination ▪ No necessity to share values and beliefs <p style="text-align: right;"><i>Uncodified</i></p> <p>Fiefs</p> <ul style="list-style-type: none"> ▪ Information diffusion limited by lack of codification to face-to-face relationship ▪ Relationships personal and hierarchical (feudal/charismatic) ▪ Submission to super-ordinate goals ▪ Hierarchical coordination ▪ Necessity to share values and beliefs 	<p>Diffused Information</p> <p><i>Information</i></p> <p>Markets</p> <ul style="list-style-type: none"> ▪ Information widely diffused, no control ▪ Relationships impersonal and competitive ▪ No super-ordinate goals – each one for himself ▪ Horizontal coordination through self-regulation ▪ No necessity to share values and beliefs <p><i>Information</i></p> <p>Clans/network</p> <ul style="list-style-type: none"> ▪ Information is diffused but still limited by lack of codification to face-to-face relationships ▪ Relationships personal and non-hierarchical ▪ Goals are shared through a process of negotiation ▪ Horizontal coordination through negotiation ▪ Necessity to share values and beliefs
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Table-2: Cultural characteristics of social institutions

We can see that high codification (low cognitive complexity) is possible in either bureaucratic or market types of social institution. Thus, the bigger a firm is, the higher is the need for information codification because it allows firms to achieve higher efficiency in organisational processes. However, in many cases, as firms grow, they cannot escape from the dilemma of shifting to a different type of social institution, i.e. bureaucracy or market institution (Aldrich 1999; Boisot, 1995; Boisot and Child, 1999). And as firms turn into bureaucracy or market institution, there is also a tendency for firms to pay more attention to organisational process rather than performance. Moreover, close personal relationships are difficult to maintain in either of these types of social institutions.

It is also suggested that there are certain contingent factors for firms to choose what strategies to be imposed in dealing with a complex and unpredictable environment. The contingent factors are for example, availability of resources and level of competition among players (Boisot and Child 1999 pp. 249). Greater resources allow firms to absorb a greater degree of both complexities than lesser resources. Also, the more competition firms have, the higher the tendency for firms shift to clan and network type of organisation because it allows firms to be more flexible and adaptive. Strives for efficiency could jeopardise the level of innovation. Thus, clan or network type of organisation is preferable in this industry.

Thus, even though clan/network structure is the *most complex* type of social institution (both *cognitive* and *relational* complexities as shown on table-1), it provides firms with flexibility.

Based on Boisot and Child's (1999) conception discussed above, this study explores Chinese and Javanese social cultural perspectives and their historical trajectory developments in Indonesia; and relates those to their social institutions and business practices as discussed later in the following chapter.

III. CHINESE AND JAVANESE SOCIAL CULTURAL PERSPECTIVES

In general, Indonesian society can be considered as a complex and unique society. This is as a result of its unique history and geographical characteristics as an archipelago of islands, and its attendant social and cultural heterogeneity (Geertz, 1961). Historically, having a strategic geographical position in the equator - linking countries in Southeast Asia, China, India, Persia, Arabia, Egypt and East Africa, Indonesian people were unavoidably exposed to different political, economic and management systems; religions, beliefs and ideologies; as well as social-cultural diversity (Bentley, 1993). For example, the interaction among Chinese with Indonesian indigenous people was believed to have started in the era of the "Silk Road," approximately in the late centuries BC, which resulted in inevitable cross-cultural interactions and exchange (Bentley, 1993). These Chinese were mostly merchants from the south-eastern region of China (the Malays), and believed to be the first group of people to bring an agricultural system to Indonesia, including wet-rice agriculture, which was suitable for tropical climate and rich volcanic soil in Indonesia. Many of the so-called 'sojourners' had inter-marriage with people who had occupied Java earlier and did not return to China (Wu and Wu, 1980 in Redding 1990). According to Geertz (1960), they were probably the ancestors of Javanese 'village' social-nuclei (social substructure).

The historical interactions among people who came to Indonesia earlier and the late comers from different parts of the world had created continuous power struggles among

themselves. Some tried to preserve the status quo, others tried to change it (Bourdieu, 1977, 1991). As a result, there was ‘a creation of unique cultural blends with other elements in its existence within the Javanese society’ (Geertz, 1961). For example, it is believed that philosophy of life and religious beliefs of the *priyayis* – one of Javanese social substructure - is very much influenced by a mix of Hindu, Buddhism and Confucianism, as well as Islamic traditions (Geertz, 1960). As well with over three hundred years of colonial occupation in Indonesia, the Dutch (1596-1945), have certainly played an important role in the diversity as well.

Geographically, Indonesia is an archipelagic country, consists of over 13,000 islands, which physically separates Indonesians by lands and seas. Overall, these result in political, linguistic and social cultural heterogeneity. There are around 580 languages and dialects spoken by over 230 million people of around 350 ethnic groups. The bigger ethnic groups are Javanese (45%), Sundanese (14%), Madurese (7.5%), coastal Malays (7.5%) and other (26%). Indonesia is also varied in terms of religion. It is the biggest Muslim country in the world in terms of population (88% of the 230 million total population), followed by Christian (8%), Hindu (2%), Buddhism (1%) and other (1%) (Suseno, 1997).

The interesting historical journeys and power struggles among people of different backgrounds and objectives, as well as unique geographical conditions of Indonesia had produced unique mixtures of modern days’ cultural, as well as business practices.

This study is an attempt to investigate Chinese business practices as a comparison to Javanese business practices as products of their social cultural dispositions which are mediated by the historical trajectory developments and dynamic interactions in a business context (Bourdieu, 1991). Thus, Chinese and Javanese social cultural values are investigated.

This chapter is divided into three sections. Section one and two respectively cover Chinese and Javanese social-cultural backgrounds as well as their institutionalised social

interactions. Section three covers business practices of Chinese and Javanese-managed organisations - based on Boisot and Child's (1999) conception.

3.1 Chinese social-cultural background

Scholars have identified three salient characteristics of Chinese society: *guanxi*-based relations, *familism* and pragmatism (Redding 1990; Hamilton, 1996). They are believed to be prevalent in Chinese society due to Chinese social cultural values (Redding, 1990), which is very much influenced by Confucianism, Buddhism and Taoism as an integrated and inseparable Chinese philosophy of life (Tu, 1985), thus, are usually referred to as 'Confucianism' only.

What is *guanxi*-network; what is its relation to *familism* and pragmatism; and why are they prevalent in Chinese society? This section discusses those issues and is divided into two subsections. The first sub-section discusses the understanding of *guanxi* and *guanxi*-network which provides contextual background information on what *guanxi* really is and how it is operated in Chinese society. The second sub-section covers Chinese social cultural values based on Confucianism, as the underlying reasons why *guanxi* and *familism* are prevalent in Chinese society.

3.1.1 *Guanxi* and *guanxi*-network

What is *guanxi* and what is *guanxi*-network? Many have attempted to give a definition to *guanxi*. Some of the following definitions name a few. It is simply regarded as a good connection (Tsang, 1998). It is a friendship with implications of continued exchange of favours – it is more than a pure interpersonal relationship, and there is a reciprocal obligation to respond to requests for assistance (Pye, 1992). It involves cultivating personal relationships through the exchange of favours and gifts for the purpose of obtaining goods and services, developing networks of mutual dependence, and creating a sense of obligation and indebtedness (Yang, 1994). Other scholars treat *guanxi* as resources to reduce transaction costs (Standifird and Marshall, 2000), and to build sustainable competitive advantage (Tsang, 1998).

In terms of the resource-based view of organisations, *guanxi*-relationships have all the characteristics necessary to be regarded as sustainable organisational resources. They are not easily imitable, valuable, and scarce (Tsang, 1998). However, *guanxi*-network has also been regarded as inhibitor for business success. For example, it is frequently regarded as nothing more than a connection of ‘related/familiar’ people that is built and maintained by exchanges of gifts, nepotism, briberies, corruption, and is used to smooth business transactions or to expand and strengthen business relations (Tsui, Fahr, Xin, 2000).

Based on the above definitions, we can see that the *guanxi*-network is not just any kind of network, but it’s a kind of network that is based on *guanxi*, i.e. long-term trust-based personal relationship. It is established and maintained among family and ‘*extended family*’ (Tsang 1998); with *ganqing* (emotional commitment) and *renqing* (personal favour) (Hwang, 1987); based on reciprocity and mutual benefits (Pye, 1992; Yang, 1994), personal trusts and credibility (Wong, 1988); and *mianzi* (‘face’ or respect) (Hu, 1944).

In this study, I do not intend to give a new definition of *guanxi*, but instead, with my limited knowledge of Chinese language, I try to make sense and give meaning to ‘*guan-xi*’ from the Chinese language point of view. It is believed that Chinese ideograms, like Japanese or Korean, are the reflections of the functional and practical meanings of the objects/situations (Hansen, 1993).

The ideograms (words) for *guan-xi* are actually a combination of the words *guan* and *xi*. *Guan* itself can be separated into two other independent words *men* (two-leaf door/gate) and *guan* (collections of fine silk threads braided on a loom). The word *xi* is also composed of two separate words of *ren* (human beings), *mi* (threads pulled together). *Guan* and *xi* can individually be combined with several other words having different meanings, for example: *guan-men* (close the door), *guan-sin* (concerned about), *guan-jie* (joint), *guan-lian* (related/connected), *guan-shuo*

(buy influence), *guan-zhu* (pay attention), *guan-ka* (checkpoint); *xi-lie* (series, sequence), *xi-tong* (system), *xi-shu* (coefficient). Thus, from the language point of view, *guan-xi* can be interpreted simply as:

‘A collection of selected people (through the two-leaf gate) having certain qualities (fine silk threads) joined together to take part in an inter-connected system (braided in a loom), and to complement to each other in making a contribution for the benefits of the network members (to produce a piece of fine silk)’.

This understanding implies why it is difficult to be a member of a *guanxi*-network, unless by invitations or referrals from existing members. However, once members are inside, while being connected and protected, are also expected to contribute for the benefits of the whole network. Members also go through a series of assessment processes in order to stay inside the network. Outside the gate, they are barely anybody. Thus, by understanding Chinese ideograms, we can get the ‘feel’ of the real functional and practical meanings of the words and their application in daily lives.

Having discussed the understanding of *guanxi* and *guanxi*-network, the next subsection analyses Chinese social cultural values as an explanation of the underlying reasons why such a network is prevalent in Chinese society.

3.1.2 Chinese social cultural values – based on Confucianism

Scholars have identified that the basic conception of Confucian teaching is based on an *organismic* process (Tu, 1985; Capra, 1996; Needham, 1956). It treats individuals as unique autonomous, self-organised, and self-generating individuals who are interconnected with all things in the universe in an integrated manner. Thus, Confucianism does not only treat individuals as being interrelated with other individuals in the social world, but also being integrated with the whole beings in the universe (both living and non-living systems). Being unique and autonomous, it does not mean that individuals are isolated static beings, but rather, they are social

beings, integrated with their dynamic environments in which they are embedded. Individuals are *unique* because each has his/her own internal resources and self-effort for self-development to become anything, which can only be recognised through ‘self-knowledge.’ These resources are to be utilised for self-regulation, self-generation and the ultimate *self-transformation*, which in turn, is only possible through the process of *self-cultivation* (Tu, 1985).

In Confucianism, learning to be human is ‘conceived of as the ‘mutual nourishment’ of inner morality and social norms rather than the imposition of external values upon an uncultured mind’ (Tu, 1985). Thus, individuals need to know their inner-self (self-knowledge), make use of the inner-capability to proactively learn from their outer environment to allow them to transform. In doing so, individuals as social beings, learn to develop themselves by participating in the social world, by learning from other people while interacting with them. The quality of transformation is shown in human behaviour as a reflection of the inner quality - *hsin* (heart) as a cognitive and an affective faculty, symbolizing the functions of conscience as well as consciousness (Tu, 1985). Therefore, learning to be human in Confucian perspective is a gradual process of building up one’s character by making oneself receptive to the symbolic resources of one’s own culture and responsive to the sharable values of one’s own society. In order to establish oneself, one should try to establish others; in order to enlarge oneself; one should try to enlarge others’ (Tu, 1985). The Chinese society is constructed out of morally binding relationships connecting all. The ‘self’ is not an enclosed world of private thoughts (Tu, 1994). Contrast to the Western societies, they look at ‘self’ as a ‘free’ individuals in but attached to others (Markus and Kitayama, 1991).

Furthermore, the Confucian Golden Rule in human relationship in bringing social order is based on reciprocity: ‘Do not do unto others what you would not want others to do unto you’ (Tu, 1985). Since family is individuals’ closest social world, Confucianism also treats family as the basic building block of ordered society. As a result, family is the central issues of all decisions, the idea of which is termed by

Redding (1990) as '*familism*'. All efforts should be focused to make sure that family have the 'ability to serve as a stable basic building block by incorporating into the disciplines of hierarchy' (Redding, 1990). In Confucianism, the most important reciprocal relationships among individuals are reflected in *wulun* (filial piety)^o which regulates the hierarchical relationships between father and son; older brother and younger brother; husband and wife; superiors and subordinates; and relationships among friends.

The hierarchical relationship in *wulun* does not imply to the meaning of hierarchy as in the sense of a rigid rank, but rather should be regarded as being operated according to individuals' *duties and roles* in their relationships with others in order to bring an ordered social world (King and Bond, 1985; Tu, 1985). For example, a father - as head of family, is responsible for taking care of the family, providing them with sufficient wealth, proper education and is also expected to be a good exemplar to his family. On the other hand, children have to give respect to their father as gratitude (reciprocations) for whatever the father has done and given them (Tu, 1985). A child, while interacting with other children in a horizontal manner, can also interact hierarchically (with parents). Thus, within *wulun*, there is horizontal as well as vertical relationship, depending on one's roles and duties. This seemingly confusing so-called *nested hierarchy* (Bell, 2000) is arranged to create social order and harmony within a family.

An illustration of a nested-hierarchical relationship:

A has two uncles, one is the younger brother of his father (**B**) the other is the younger brother of his mother (**C**). While each of both uncles, being younger siblings of **A**'s parents, they can be regarded as having the same position – both have roles as **A**'s uncles; thus, the relationship between them is horizontal. However, in the case when both uncles require **A** to do a favour for them, **A** has to give more priority to **B** than to **C** because **A** has to give more priority to his father's

^o filial: the way children behave towards their parents; piety: based on deep respect - OXFORD Advanced Learner's Dictionary, Sixth Edition 2002, University Press

family after his mother's family (vertical relationship). We can see by understanding *wulun*, a Confucian individual has a clear understanding on his/her family obligation.

Moreover, the definition of 'family' is not only restricted to the blood related family (kinship), but can be extended to non-kinship – i.e., people from the same village, school, temple, or any other unit of organization (formal or informal). And *wulun* is also applied to the 'extended family.' Furthermore, the concept of 'family' is also not fixed. New members can emerge at anytime, and old ones can fade away within the network, depending on the relationship intensity among family members. Because family is the most important building block of an ordered society, the more intensive the relationship among 'family' members, the higher is the sense of obligation for reciprocity. Thus, the intensive relationship among 'family' members creates difficulties for agents to make independent decision, thus, there is a high degree of relational complexity – as discussed in section 2.2 on page 10.

We can see that Confucianism treats individuals as unique autonomous, self-organised, and self-generating beings who have idiosyncratic characteristics and freedom to do and become anything. Thus, one can never predict the outcome of interactions among such agents, thus, interactions in a social world is unpredictable and complex. For that reason, interactions among trusted 'family' members reduce the complexity and thus, are preferable.

Furthermore, because family is the most important building block of an ordered society, in which *wulun* regulates relationships according to individuals' *duties and roles*, learning from family members is emphasised in *wulun*. For example, a father, as head of family, is responsible in educating and teaching his children to behave properly according to social norms and regulations in order to create and maintain social harmony in the environment. On the other hand, children should learn from their father; wives should learn from their husbands; younger brothers

should learn from their elder brother(s); subordinates should learn from their superior(s); and friends should learn from each other; as the former are presumably regarded as more experienced than the latter. Young children as unique, autonomous, and self-organised beings need guidance in their ways of self-cultivation and self-transformation. They do not have the necessary knowledge and experience to behave appropriately according to norms and conventions in the environment they are imbedded. Thus, proper education helps young children to learn to live in the social world in an orderly manner because disruptive behaviour is not tolerated (Bond, 1991).

We can see that knowledge that is transmitted from one generation to another is predominantly tacit – young children learn to interact with the world by trying to understand ‘the hidden meanings of words and of adult behaviour. As Polanyi suggests, most of our knowledge is acquired in the course of our socialization (Polanyi, 1958). Young children, having limited experience, can learn from their closest and trusted social world – their own family. Good relationship that is based on ‘*familism*,’ personal trust and credibility, respect, reciprocity and mutual benefits are all necessary to reduce the overall complexity and uncertainty.

Hence, *guanxi*-based relationship can be considered as a ‘space’ to learn and create new knowledge proactively. In the term of Nonaka’s et al, this is referred to as “*ba*,” or in term of Hall (1960), it is referred to as a ‘shared context and understanding’, without which, data remains data and information remains information, because there is no context in which new knowledge can be created (Nonaka and Konno, 1998; Nonaka et al. 2000).

For this reason, there are *in-group* and *out-group* classification of people in the society. Whilst *in-group* consists of people with more ‘familiarity’ or shared context; *out-group* is just the opposite. Once *in-group* interact with *out-group* (‘outsiders’), they are confronted with ‘competing assumptions’ which Hall (1960) calls it as a ‘culture clash.’ The basic assumptions that have been taken for granted

and embedded their ways of thinking and behaving started to be tested and questioned. This creates a new learning process. Interaction with out-groups needs mutual reinforcement, and new knowledge proposed by out-groups will not be taken for granted, but rather, be tested prior to acceptance. Thus, knowledge transactions with out-groups are carried out in a more codified and abstract manner, to allow agents to be more critical. New knowledge is accepted if it survives the test. Thus, interactions with out-groups motivate the creation of codified abstract knowledge.

On the other hand, transactions with in-groups are preferable due to its faster data processing that leads to higher efficiency. Besides, face-to-face informal and personal transactions among in-groups provide the agents with an environment of more social solidarity and understanding. Thus, interactions in in-groups tend to keep knowledge concrete and un-codified (tacit).

We know that tacit information has a low level of codification and abstraction (Boisot, 1995; Nonaka and Takeuchi, 1995), thus, it is lack of form and structure. As a result, is difficult to be diffused without losing part or entire meaning of it (Boisot, 1995). Thus, information transaction that is predominantly tacit creates instability, uncertainty and unpredictability or produce cognitive complexity (Boisot and Child, 1999) (as discussed on page 10. Thus, there is a high degree of cognitive complexity in guanxi-network as well.

The overall complexity is characterised by a high degree of relational as well as cognitive complexity in *guanxi-network*. This explains why clan/network type of institution is the most complex type of social institutions (page 10). The overall complexity can be maintained in two inter-related ways: either by limiting the number of selective interacting agents to a sizeable number to allow a more intensive-personal relationship; or by increasing the level of information codification and abstract to allow higher diffusion (Boisot and Child, 1999). This explains why it is not easy for anyone to join a *guanxi-network*. Only by invitations

or referrals from existing members can a new member be accepted in such a network. If the network has too many members, personal intensive relationship is difficult to be maintained.

Furthermore, close-personal relationship among a limited number of selected members has to be continuously nourished and maintained by strong emotional commitment through active interaction and participation in the network activities, which are necessary for each member to get familiar with and to build personal trust (Luhman, 1988). Such interaction and participation also increase coordination and cooperation (Axelrod, and Hamilton, 1981; Richerson et al. 2003).

To conclude, Chinese society deals with the complexity of social interactions among autonomous and self-organised individuals by engaging in personal, trust-based intensive relationship, in which relational and cognitive complexities are inevitable. One can only manage both types of complexity to avoid chaotic environment which can in turn destroy the social harmony. In other words, an unpredictable and complex environment is absorbed by engaging in a complex relationship like *guanxi*-network.

Complexities are absorbed ‘through the creation of options and risk-hedging strategies, and by holding multiple and sometimes conflicting representations of environmental variety,’ which in turn, create behavioural plasticity (Boisot and Child, 1999, pp. 248). These scholars also suggest, because of this behavioural plasticity, the strategy enhances the ‘capability to deal with a wider range of environmental contingencies by cooperating loosely with a number of other organisms, which can assist with information and interpretation and share risk. In other words, *guanxi*-based relationship in Chinese society has created pragmatic behaviour, which in turn, increases Chinese adaptive behaviour in a complex and unpredictable environment.

Confucian teachings are embedded and have shaped Chinese ways of living for many generations, and therefore, it is logical and natural for Chinese to engage in a *guanxi*-based relationship as a social institution (Hamilton, Orru, *Biggart*, 1987). According to Bourdieu (1986), social interaction that is based on institutionalised relationships of mutual acquaintance and recognition has actual or potential resources as ‘capital,’ which is defined as ‘anything that can be utilised to influence the behaviours of others or to aid in achieving desired goals’ (Smart, 2003). In this sense, *guanxi*-based relationship as institutionalised social interaction that is built based on trust can be regarded as social capital. Other kinds of capital include economic/financial capital, symbolic, and cultural capital (Bourdieu, 1986 in Smart, 2003).

However, among all forms of capital, social capital is the most tentative and least secure form of capital, while economic capital is the most ‘objective,’ certain and enforceable. Obligations and trust in social capital, by its nature are vague and un-measurable. It is always potential, one can never know for sure whether one’s favour will be reciprocated in the future and one can never know the value of the reciprocation until it is actually received and used. Since ‘social capital cannot be possessed, although it can be converted into other forms of capital, then social capital depends on the persistence of the social relationships within which the obligation of trust is contained’ (Smart, 2003, pp. 393).

As a result, *guanxi*-network is maintained by continuous nourishment among members, for example, by exchanging gifts and favours for mutual benefits. This explanation is in line with the previous proposed understanding of the Chinese ideogram of *guan-xi* (page 16).

Overall, understanding Chinese social cultural values provides us with understanding and explanation why *familism*, *guanxi*-network and pragmatism are the three salient characteristics in Chinese society (Redding 1990; Hamilton 1996; Boisot and Child, 1999).

3.2 Javanese social cultural values

Similar to Chinese social cultural values as discussed previously, Javanese social cultural values are also products of social upbringing since early childhood and social communication with various other agents in which they are embedded. Given the rich historical interactions with foreign cultures, ideologies, and religious beliefs, Indonesian cultural background is characterised by political, ideological, cultural and power struggles among indigenous people of various ethnic groups and among these indigenous people and foreign colonial agents. The end result is a unique blend of mixtures of different cultures. The power struggles are evident especially during the Dutch colonial era (1596-1945) where stratification of Javanese social class became more obvious (Geertz, 1960; Carney and Gedajlovic, 2002; Schwarz, 1994).

The followings discuss Javanese social structures and their social cultural values to help us understand why and how the Javanese institutionalise their social interactions.

3.2.1 Javanese social structures

Javanese social structure in general can be divided into three main social-nuclei (social sub-structures), each of which is identified by their professions; religious beliefs and practices; or social norms and etiquette. These social sub-structures are: the village, the market, and the government bureaucracy (Geertz, 1960).

The first and lowest social class - the Javanese village, is probably the oldest one, and it belongs to the Malayo-Polynesian peoples who migrated from the south-eastern region of China who first came to Java around 400 A.D. Their religious beliefs are a mixture of balanced integration of animistic, Hindu and Islamic elements (Geertz, 1960).

The second major social substructure is the market. They are basically involved in the business sectors as batik traders, shopkeepers, tailors, owners of small factories and the like. Many of them are wealthy and prosperous and got actively involved in

political organisations. It is among this class of Javanese where purer Islam values are the strongest.

The third group is the bureaucratic elite or Javanese aristocracy. They are popularly known as the *priyayi* - a term 'originally referred to only to the hereditary aristocracy which the Dutch pried loose from the kings of the vanquished native states and turned into an appointive, salaried civil service' (Geertz, 1960, pp. 6). Thus, *priyayi* is referred to social class, to the traditional legitimate elite; it refers to those who by right are considered to be different from the commoners (Husken, 1991). In terms of religious beliefs, the *priyayis* are very much influenced by a mix of Hindu, Buddhism and Confucianism and Islamic traditions. Thus, originally, the *priyayi* social culture has Confucian elements in it. As a result, to a certain degree, *priyayi* share similar social cultural values with Chinese.

We can see that Javanese society is hierarchical and the Hindu element of caste (social group) has blended with other elements in its existence within the Javanese society, which is evident in the social segregation by classes, even though the element is more evident and prevalent among the *priyayis*. The *priyayi* was considered to have charisma and spiritual excellence, which was correlated with 'political eminence and culminated in the immobile king, the incarnation of Vishnu or Shiwa, meditating at the centre of the universe' (Geertz, 1960, pp. 232). Thus, being a *priyayi*, one has to be *alus* (pure, refined, polished, polite, exquisite, ethereal, subtle, civilized, and smooth) (Geertz, 1960; Suseno, 1997). As a result, Javanese of the lower social classes (the village and the market), pattern their lifestyles after the *priyayis* - as the highest and admired class of society (Geertz, 1961, Husken, 1991).

Realising this social segregation, the Dutch East India Company (1596-1890) and later the Dutch colonial government (1890-1945) made use of the prestigious and powerful position of the *priyayis* in order to gain political support from other groups of Javanese. The Dutch built a good connection with the *priyayis* by

appointing them to work as clerks and administrators in the Dutch firms. Their family members were also among the few people to be given permission to enjoy Dutch education system and to join Dutch social clubs. As a result, the *priyayis* at the middle and higher levels tend to speak not only their own native language - Javanese, but also Dutch. Many of them even speak more Dutch than Javanese. Since the *priyayis* played a major role in shaping the ethics and the social behaviour of the Javanese people, through the *priyayis*, the Dutch had successfully turned the traditional court culture into a highly secularised, Westernised and somewhat anti-traditional political elite of the Indonesian Republic (Geertz, 1960, pp. 236). For the commoners, the *priyayis* were considered superior because they possess charisma and spiritual excellence. As a result, the commoners treated the *priyayis* as a model and they tend to pattern themselves after these *priyayis* whose model is based on white-collar Western education emphasising Dutch language, history, art and literature, and Dutch values and manners (Geertz, 1960).

Priyayis' powerful position as bureaucratic elite continued in the modern era, especially in the New Order under the ruling of Indonesian second president – Soeharto (1966-1998). As a Javanese born in Yogyakarta, Soeharto used the Javanese philosophy of life in his government. Unlike his late wife Mrs. Tien, Soeharto himself is not a *priyayi*, but, his attitudes and behaviours show a strong sense of Javanese ideology of peace and order which, in Javanese culture is considered as 'alus,' - proper conducts of a *priyayi*. In terms of power, Soeharto believed in the concept of concentration of power as adherence to an established pattern of order. Disorder is considered by the ruler, as losing power. As a consequence, power has to be centralised and concentrated, otherwise its starts to fade away and eventually brings disorder and disruption (Goodfellow, 1997). For this reason, Soeharto appointed many Javanese, including the *priyayis'* to be part of his 'inner-circle' in the government. These people served as important leaders in the Indonesian military, as well as non-military sectors, including the business sectors (Goodfellow, 1997). As a result, many government strategic and important

decisions are concentrated in the hands of these Javanese officials, which in turn, influence the overall national cultural, political and economic affairs.

Because of the *priyayis'* powerful position in the government, as well in the society, their social cultural values will be discussed in greater details in the followings compared to those of the other social classes.

3.2.2 Javanese social cultural values

In general, there are two basic principles of values in Javanese social life: *rukun* (harmony), and *hormat* (respect). The principle of *rukun* is expressed in behaviours showing calm, peaceful, and unity to avoid conflict/dispute in order to avoid social disrupt. One is expected to suppress his/her own feelings to show continuous effort for harmonised social relationships, even when there is a situation of disagreement. In Geertz' term, *rukun* is '*harmonious social appearance*' (Geertz. 1960). Should any dispute arise, it is important for the involved parties to express their ideas directly, however in a careful manner, and not to show confrontation in public. Any disagreement is usually dealt with through mediation and compromise. This does not mean however, that the Javanese does not have any respect towards individual differences, rights and preferences. One should rather see the *rukun* principle as a social mechanism by which individual interests can be integrated into group welfare (Geertz, 1960; Suseno, 1997). The principle of *rukun* is practiced in a collective behaviour of mutual assistance or *gotong-royong*, in which people help each other and work together in pursuing certain common goals.

Like *rukun*, the second principles of life - *hormat* (respect) is also intended to bring social order. One is expected to show *hormat* not only in behaviour, but also in speech - as a *social etiquette* to anyone in the social contact. This principle is based on the belief that all social relationships are ordered in *hierarchical* form (Geertz, 1960); Suseno, 1997). While people who hold higher positions should be respected, people in the lower positions should be treated with good will and a sense of responsibility for their welfare. Thus, similar to a Confucian person, a Javanese

person is expected to know not only his/her position but also responsibility in the family as well as in the social contexts accordingly.

Besides the two principles of life, the Javanese also recognise the unity of God and man as the high point of spiritual progress. This unification is the goal of Javanese mysticism (Suseno, 1997). In the unity with God, the Javanese also believe in acceptance of destiny or *nrimo* (acceptance). One's life is believed to be pre-determined. 'Every person has his/her specific place which has been pre-ordained and which one can do nothing to change'. One's life is determined by one's birth, social position and geographical living space in the surrounding environment' (Suseno, 1997). This predetermined life situation is called '*nasib*' (fate). No one can do anything about *nasib* because it is given. A person can only do their duties according to his rank, as determined by tradition and society (*rukun* and the hierarchical structure). Only by accepting destiny (*nrimo*) without questions (*ikhlas*) and seek calmness, relaxation and freedom from excitement can one live happily. As a result, Javanese people tend to accept everything without protest, thus, more submissive (Goodfellow, 1997). Even though *nrimo* is part of Javanese social cultural values, however, it is more evident in the lowest social class, i.e., 'the village'.

These principles of life, especially the principle of *hormat*/respect - is taught to Javanese children since their early childhood. As children grow and interact more in the society, they are always expected to behave properly and appropriately according to their family and social status. Similar to *rukun*, the principle of *hormat* is not to be interpreted as disrespect to one's interests and preferences. When one shows respect, it does not mean that he/she obeys fully to any command. One might say 'yes' to any command, but he/she might not do it at the end. This indirect behaviour is maintained by most Javanese in order not to show direct disagreement or to avoid direct conflicts and confrontation. To show spontaneous feelings and strong emotions is viewed as improper. One should try hard to hide

feelings and master emotions; because the Javanese believe that strong emotions can endanger one's health (Geertz, 1960, 1961; Suseno, 1997; Goodfellow, 1997).

Beside the principles of life, *priyayis* recognise four major principles of good etiquette as well: the proper form for the proper rank, indirection, dissimulation and the avoidance of any act suggesting disorder or lack of control (Geertz, 1960). The first principle, the proper forms for the proper rank is exhibited in many ways, one of which is by the correct choice of linguistic form or speech levels, which is more prevalent among the *priyayis*. Moreover, there are two levels of Javanese language – the first (*kromo*) is used for 'polite' purposes and the second level (*ngoko*) is used more for 'common' or more familiar people. In addition, there are also 260 words of *kromo inggil*, which are only used for conversation with parents or other older people or those of higher (superior) position in organisational or social setting (Geertz, 1960; Moedjanto, 1986; Suseno, 1997).

The second important Javanese principle exhibiting proper etiquette is indirection. This is also considered as proper behaviour of Javanese in general, not only of *priyayis*. Indirection is also intended not to offend or insult anyone. Bluntness is simply not a virtue. As a result, external behaviour does not always express the real inside feelings. The third principle, dissimulation (pretension) is almost similar to indirection. These two last principles can easily lead to misunderstanding especially when the conversation is conducted between Javanese and non-Javanese because they tend to make the Javanese never really say what they really think. The last principle, avoidance means avoiding any acts that can suggest disorder or lack of self-control. Thus, similar to Chinese, Javanese society also puts great value in social harmony. However, social harmony is maintained by exhibiting proper conduct of behaviours, physical gestures as well as of using the correct language levels based on *hormat* (respect), *rukun* (harmony), *nrimo* (acceptance) and avoidance of conflicts. Such values, even though is more prevalent among the *priyayis*, is generally practice in Javanese society.

3.2.3 Javanese family and kinship relations

Given the unique history of Javanese cultural evolution, concept of family in Javanese society is also unique. Similar to the Chinese concept of family as the most important building block of an ordered society, which is arranged based on roles and 'responsibilities' in the family structure (*wulun*=filial piety), the Javanese also believes in kinship relationship in the social order. Javanese culture values virtues that contribute to harmonious social integration. Ideal human virtues include obedience to superiors (*manut*), generosity, avoidance of conflict, understanding of others, and empathy (Geertz 1961; Koentjaraningrat 1985; Suseno 1997).

Like Chinese, the most important kinship group for Javanese in a family is the nuclear family (parents and children), where a strong relationship based on harmony exists among family members. Parents have obligation to give good guidance and examples to their children through a process of continuous socialisation. Javanese children since early age are taught by their parents the concepts of *isin* (shyness), *wedi* (fear), and *sungkan* (respectful politeness) to encourage social harmony and respect in their outside relationship (Husken, 1991). However, as children grow, the relationship with their father is more formal (Suseno, 1997; Koentjaraningrat 1985). A father should receive 'respect' from his children (Husken, 1991). Relationships among Javanese siblings are close and warm. Mutual assistance among siblings is obligatory, especially when there are problems. Elder siblings should take care of their younger siblings if financial problems arise or if the younger siblings are orphaned before adulthood (Husken, 1991; White and Schweizer, 1998).

However, the other kinsmen outside the nuclear family are not organised into corporate groups, and serve primarily as sources of aid in trouble and pleasurable companionship (Geertz, 1961; Koentjaraningrat 1985). Economically, each nuclear family is an independent system. The household is rarely a unit of production. Not like the Chinese business, where family members can be part of important strategic

management group, Javanese organisations are not arranged in the form of a family business in general. Javanese family-based firms (FBFs) mostly employ outsiders or family members to work as employees for them. Important decisions are centralised in the hands of the owner or are concentrated among nuclear family members (Geertz, 1961, pp. 77).

Thus, kinship structure in Javanese is different than that of the Chinese. Unlike the structure in *wulun* the structure of the Javanese kinship system is considered as 'bilateral' and 'generational' (Geertz, 1961, pp. 76). By bilateral, it means, the terms 'kin' are the same whether it is applied to father or mother. Generational means that all family members are grouped based on generation. For example, one's siblings and cousins who belong to the same generation are called by the same or similar terms; all members of the grandparental generation, including the siblings of grandparents are identified by a single term as well. The result is a horizontal stratification or layers of all relatives. Besides, family members within the same generational groups are also identified differently according to one's age (seniority). Relationship with kinsmen other than the nuclear family is limited with no strict obligation (Geertz, 1961; Husken, 1997).

For Javanese, relationship is defined according to kinship relationship and other social elements, for example: sex, relative age, wealth, status (class), position, occupation, religio-views, and style of life (Geertz, 1961, White Schweizer, 1998). Thus, the term 'kin' does not indicate some specific institutionalised social groups/class. It also does not show the degree of cohesiveness among family members, which varies depending on the particular circumstances of each family. The institutionalised social groups are more defined based on one's social rank or status, which is also used to decide the degree of *hormat* (respect) and proper etiquette.

Since family members are not obligated to help non-nuclear family, such relationship creates more independence among family members in arriving at

important decisions. Thus, there is a low relational complexity. Family members do not have to worry too much of the impacts of their decisions to other family members. They do not have to consider offending other family members, except those who are in the same social structure. Overall relationship is not determined by the concept of kinship or extended family, but by status and prestige. Thus, compared to *guanxi*, relationship in Javanese perspective is loose and not durable. As a consequence, there is a low degree of relational complexity among related people.

Moreover, the four basic principles in social etiquette prevent Javanese to be open and direct, and thus, messages are not forwarded clearly and difficult to understand. If listeners do not understand the message, they do not raise question and in many cases, it creates mis-understanding. Communication is more rigid among people having different social class. For example, it is inappropriate for subordinates to raise questions to, let alone to disagree with their superior, especially in public. Only those having close and personal relationship and esoteric knowledge about Javanese culture can possibly understand better. Here, esoteric knowledge can be understood as a kind of knowledge that is built and accumulated among initiated few (Baumard, 1999). As a result, there is high level of cognitive complexity. Hence, in Javanese society, there is a low degree of relational complexity. Overall, transactional complexity in Javanese society is considered as medium. These cultural characteristics are identified as characteristics of a **fief** social institution (Boisot and Child, 1999).

We can see that Javanese society is very hierarchical. Every aspect of life is arranged according to one's social status, each of which has its own social norms and etiquette, including its own levels of language. Compared to the Chinese, Javanese have a different concept about relationship. Unlike the Chinese society, where social institutions are based on durable *guanxi*-based relations (social capital), the Javanese social institution is has a strong emphasis on social-status. Once the status fades away, the relationship goes along with it. Thus, it is not as

durable as *guanxi*-based relation. Therefore, it is important for Javanese to try their best to maintain their prestige and social status (or possibly reach higher status) to stay in a particular social institution. In the case of the government bureaucrats (*priyayis*), it is important to maintain high position in the government offices to maintain power. Otherwise, there is no more symbolic capital left to be utilised for economic gain (Bourdieu, 1977).

Based on Chinese and Javanese social cultural values and their historical trajectory developments in Indonesia discussed above, the following discussion relates those values to their social institutions and business practices as proposed by Boisot and Child (1999).

3.3 Managerial values and business practices

As discussed earlier on page 10, by treating organisations as self-organised and adaptive social systems in a complex environment, Boisot and Child (1999) look at organisations as units of collections of autonomous individuals that interact with other organisations by exchanging and giving meaning to information. Organisations also have freedom to decide what objectives they want to achieve and how to achieve them. However, at the same time, organisations are also confined to certain rules and regulations as well as social norms in which they are embedded. Similar to social interactions among autonomous individuals, interactions among autonomous organisations are also complex because information means different things to different organisations and no single organisation can ever predict the reactions/responses of other organisations as outcomes of their interactions. Thus, organisational complexity is inevitable and it increases especially when interacting organisational agents come from different social cultural backgrounds.

In order to reduce organisational environmental unpredictability and complexity, it is necessary for organisations to have strategies in managing organisations. Similar to individuals' strategies in dealing with a complex and unpredictable environment, organisational strategies (practices) are also influenced by embedded social cultural

values which determine managerial values and institutionalised social interactions among various influential organisational decision makers.

For example, Boisot and Child (1999); Cone, Tian and Everett (2002); as well as Cone and Everett (2003) found Chinese-managed organisations and Western-managed organisations in China have different business practices as organisational strategies in dealing with Chinese complex environment. The differences are due to differences of institutionalised social interactions among influential organisational decision makers, i.e. Chinese and Western managers; as products of as a result of their repetitive interactions with other organisational agents in particular fields as well as their historical trajectory developments (Boisot and Child, 1999). These business practices as organisational strategies are reflections of institutions' cultural characteristics in dealing with a complex environment as discussed on page 11. Furthermore, because organisations have various external and internal stakeholders, they also suggest organisations have different approaches in dealing with external and internal complex environments.

The following discusses managerial values and business practices of Chinese-managed organisations in Indonesia based on Chinese social cultural values. As explained in section 1.2 on page 3, Chinese managed organisations are referred to as organisations with majority of their senior managers having Chinese ethnic background. By understanding their managerial values that are reflected in their business practices as organisational strategies in dealing with a complex and unpredictable environment we might be able to explain the underlying reasons behind the economic successes of Chinese-managed organisations in the country.

As a comparison, Chinese-managed organisations are compared to Javanese-managed organisations as the dominant cultural group in the country. In line with that definition, Javanese-managed organisations are referred to as organisations with majority of its senior managers having Javanese ethnic background. Therefore, the analysis is approached based on cultural characteristics of a clan/network and fief social institutions as two identified social institutions of Chinese and Javanese (page 11).

We can see in the cultural characteristics, both clan/network and fief social institutions share similar as well as different cultural characteristics. The similarities are: they both tend to absorb environmental complexity by engaging in face-to-face personal relationship with limited information codification and diffusion; and both operate with shared values and beliefs. However, both institutions are different in their ways of managing relationships among members. Whilst relationships among members in a clan/network are informal and non-hierarchical; relationships in a fief are formal and hierarchical (feudal/ charismatic). As a result, activities in a clan/network are coordinated horizontally through a process of negotiation; while activities in a fief are coordinated hierarchically.

3.3.1 Managerial values and Business practices in **Chinese**-managed organisations in Indonesia

Given Indonesian unique and diverse environment, especially a harsh and violent environment against Chinese Indonesians, we can expect that Chinese Indonesians whose social cultural values are very much affected by Confucianism, tend to absorb complexities by cooperating loosely with a number of other organisms, which can assist with information interpretation, resources as well as risk sharing (Boisot and Child, 1999, pp. 248). This is approached by engaging in *guanxi*-based relationships with various external and internal agents who know the environment very well, especially those who have ‘institutional influence to allow them to handle the external complexity which derives mainly from the bureaucracy and its manifestations or arbitrary behaviour’ (Boisot and Child, 1999, pp. 248).

Based on the same approach, this sub-section covers strategies of organisations managed by Chinese Indonesians in handling a difficult environment, and therefore, their historical trajectory developments in Indonesia are investigated. Because Chinese-managed organisations are compared to Javanese-managed organisations, the discussion includes the historical journey of Chinese social interactions with Javanese bureaucratic elites.

This sub-section is divided into six parts according to six critical eras for Chinese economic activities in Indonesia. They are: Pre-Colonial Era (0-1511); Colonial Era (1511-1945), the Nationalist Era (1945 – 1950s); the New Order - Soeharto Era (1966-1980); the Modern Era (1980 - 1997); and Post Asian financial crisis in 1997.

3.3.1.1 Pre-Colonial (0 – 1511)

The history of Indonesian encounter with Chinese can be traced back probably as long as approximately the late centuries BC, when the “Silk Road” merchants used the undeveloped sea lane linking Southeast Asia, India, Persia, Arabia, Egypt and East Africa (Hall, 1981; Bentley, 1993). The long-distant journey of these merchants not only resulted in trading of products, but also the inevitable communication of religious and interactions of cross-cultures among the merchants and local people in the countries they visited (Hall, 1981; Bentley, 1993). For example, the people who migrated from south-eastern region of China (the Malays), were believed to be the first group of people to bring agricultural system, including wet-rice agriculture, which is suitable for a tropical country with rich volcanic soil like Indonesia. Many of these migrants did not return to their home countries, but inter-married with migrants from other parts of the world and started to occupy Java.

Migration from China grew bigger, especially, under the ruling of Ming dynasty. During this time, the voyage to the south was expanded not only had more interests in commercial and political issues, not so much in cultural and ideological dissemination (Hall, 1981; Bentley, 1993). For example, the emperor Yong Le (1402–1424), reportedly, sent seven spectacular naval expeditions on great voyage to explore the countries in Southeast Asia, India, Arabia and as far as the Persian Gulf and distant Africa in an attempt to expand international trading, as well as diplomatic relationships with the neighbouring countries, including with Sriwijaya and

Majapahit. Also, the fall of Ming dynasty caused by famine, floods and the continued economic and political difficulties, caused mass migration of ethnic Chinese to the southern part of Asia (or Nanyang = The South Sea) and many of these so-called sojourners did not return to China (Wang, 1996; Bentley, 1993). Chinese migration to the south increased especially after the Communist party took over China. Many Chinese merchants overseas then identified themselves with the country they resided in (Hall, 1981).

In pre-colonial era, Indonesia was not a state. Republik Indonesia was established in the post-colonial era. In pre-colonial era, the region was ruled by several larger and powerful Javanese kingdoms which controlled an area as large as it is now known as Indonesia. These kingdoms, amongst others were: Sriwijaya (670-1025 AD), Syailendra (750-850 AD), Majapahit (1293-1520), and Mataram (1584-1894). The first two kingdoms were Buddhist kingdoms, which had central government in South Sumatra (now known as Palembang) and Central Java respectively. Majapahit and Mataram on the other hand, were Hindu kingdoms and they were centred in East Java-Bali and Central Java (Taylor, 2003).

Majapahit was considered to be the most powerful kingdom in the history of Indonesia. During this golden period of Majapahit many literary works were produced. It was also well-known for its agriculture development and large scale maritime trade. Their territories covered the present-day Indonesia and part of Malaysia (Taylor, 2003).

Another powerful Hindu kingdom – Mataram, was located in central Java. It was founded by the great grand son of the last king of Majapahit. At the beginning, Mataram was a Hindu kingdom, but later converted into Islamic kingdom. Thus, being an Islamic kingdom, its Hindu influence was still prevailing. In the 18th century, Mataram kingdom was finally fragmented by the Dutch into two powerful smaller sultanates. The Surakarta

Hadiningrat Sultanate was centralised in Surakarta (also known as Solo) under the ruling of king Pakubuwono; and Ngayogyakarta Hadiningrat Sultanate was centralised in Yogyakarta under the ruling of Hamengku Buwono. Later, the Yogyakarta sultanate was divided again into two smaller sultanates ruled by Hamengku Buwono and Paku Alam (kraton.yogya.indo.net.id).

After Indonesians proclaimed their independence in 1945, the two Mataram sultanates were reunited again and Yogyakarta gained its status as a special territory. In the new government of Republik Indonesia (Soekarno Era), many of the descendants of both Mataram sultanates who were appointed by the Dutch to work as government employees maintained their status as bureaucratic elites in the New Order under the ruling of the second president – Soeharto (Goodfellow, 1997). Thus, it was from these two Mataram sultanates the *priyayis* that was discussed on page 25 originated. Even though as Javanese from Sentul–Yogyakarta, Soeharto himself is not a *priyayi*, however, his late wife Mrs. Tien, was a *priyayi*. She was one of the descendants of the Surakarta Hadiningrat Sultanate (Tokoh Indonesia.com).

We can conclude that historical inevitable communication of religious and cross-cultural interactions among merchants from different parts of the world with earlier comers in Indonesia (Bentley, 1993) had created a unique blend of cultural mix with other elements in its existence within the Indonesian society in general (Geertz, 1961) as a result of continuous power struggles of the interacting agents (Bourdieu, 1991). This includes the creation of unique blend of cultural mix among Chinese merchants and Javanese. This explains why the philosophy of life and religious beliefs of the *priyayis* - were very much influenced by a mix of Buddhism and Confucianism, Hindu as well as Islamic influence (Geertz, 1960). Historical evidence also shows that economic success of Chinese Indonesians was

established since pre-colonial era (Hall, 1981; Bentley, 1993). Thus, Chinese capitalism was not built after the WW-II. Instead, it had been built long in advance. Chinese were already capitalistic, that is profit-oriented in the private sector. Pre-colonial era also marked the importance era of Javanese social cultural influence in the country.

3.3.1.2 Colonial Era (1511-1945)

Historical evidence shows that discriminatory actions against Chinese Indonesian, started long before the people of Indonesia declared their independence in 1945. For example, in the 18th century, during the Dutch colonial era, many Chinese have settled in Indonesia, especially in Batavia under the permission of the Dutch for their hardworking and diligence. However, as more and more Chinese became economically successful and thus, politically powerful, they were regarded as a threat to the Dutch colonial government and therefore, several discriminatory regulations were imposed towards them (Mackie and Coppel, 1976; Abeyasekere, 1990). For example, the Dutch in 1854 introduced a legislation concerning Chinese civil status, classifying them as the lowest social class along with native indigenous Indonesian people. Thus, they were regarded as inferior compared to Europeans. Furthermore, the Dutch introduced Agrarian Law in 1870, which prohibited landlord system to prevent Chinese of getting even wealthier. However, instead, many Chinese took this as an opportunity to begin participating in other occupations, including providing financial credit - together with their Arabs - to the native people for the purposes of agriculture and land cultivation.

Problems grew bigger when Chinese cultural-revolution took place in 1920s, causing massive influx of Chinese *sojourners* to Indonesia. Many Chinese came to Indonesia to work as *coolies* on various mining sites and plantations in Indonesia managed by the Europeans (Mackie and Coppel, 1976; Abeyasekere, 1990; Schwarz, 1994). This influx also caused

problems to Chinese who had come earlier to the country. There were too many Chinese to work in the mining sites, causing many coolies in rural areas, due to lack of higher education and ability in foreign language began to change their occupation as self-employed small retailers (Schwarz, 1994).

This group of Chinese is referred to as Chinese “*totok*” (Suryadinata, 1997), whose families had lived in Indonesia for few generations, had a Chinese language education and a Chinese cultural orientation, and many did not speak other languages other than Mandarin or other Chinese dialects. Having these limitations, most of the Chinese *totok* did not have the qualification to work as employees in Dutch institutions, thus, engaged in business and trade instead (Mely G. Tan, in Suryadinata, 1997). Having such occupation, many of Chinese *totok* built relationships with various people in Indonesia, not only with their fellow Chinese men. This includes, having relationships with Javanese and Dutch officers (Schwarz, 1994). As a result, these Chinese *totok* were naturally more networked than indigenous Indonesians (Schwarz, 1994; Carney and Gedajlovic, 2002).

Having such a network, some of the Chinese *totok* were appointed to work as middlemen or *compradores* for the Dutch in their trade and political relations with the Javanese (Hall 1981; Carney and Gedajlovic, 2002; Jacobsen, 2003). Being middlemen, the Chinese had the opportunities to broaden their network even with many influential political figures as well as international business community broad (Abeyasekere, 1990; Man, 2001). Thus, by early 1900s, Chinese in Indonesia had occupations as money lenders, traders, and service providers, while also being middlemen.

Wholesale business and banking were mainly in Dutch hands; while the natives Indonesians were restricted to petty retail trade.

Later on, many of the more successful *totok* merchants expanded their businesses and started to invite their Chinese friends and relatives from China to work for them in Indonesia (Wang, 1996). They expanded their business even larger by establishing trading activities with their Chinese partners and former employees. Some of the more successful *totok* merchants, in their way of reducing business risks, even managed to expand their business overseas and maintain close social, political, and cultural relationships with China, Taiwan, and Japan (Man, 2001).

Another group of Chinese Indonesians, the *peranakan*, on the other hand, had lived in Indonesia longer and had assimilated into the local culture by inter-marriage and had established good relations with indigenous Indonesians (Suryadinata, 1997). They were mostly domiciled in urban areas, giving them more access to higher education and were in free professions (physicians, dentists, engineers, lawyers, accountants), and only a sizable number were involved in business and trade. Many of the *peranakan* did not speak Mandarin or other Chinese dialects, but instead, few of the ones tend to speak Dutch language. Many of the wealthy *peranakan*, who had good business connections and acquaintance with Dutch officials, like the *priyayis*, were used by the Dutch to smooth their operations in Indonesia. They were appointed to work as officers in Dutch institutions and were granted special privileges that were not generally available for Chinese. These included immunity to trial by native courts and permission for their children to attend primary schools in which Dutch was the medium of instruction – *Hollands Chineesche Scholen* (Mackie and Coppel, 1976). As a result, culturally, the *peranakan* also became more westernised than other groups of Chinese.

To conclude, similar to pre-colonial era, Chinese success in colonial era was not a result of government protection and support, but instead, due to their hard work and diligent; business skills; as well as business and social

networks, which altogether created economic capital. Thus, Chinese capitalism in colonial era was not established by elite groups, but by heads of households (e.g., traders, money lenders). It was also built through *guanxi*-networking with relatives from China as well as with fellow Chinese men in other Asian countries (China, Taiwan, and Japan) without government support and coordination. Many Chinese also established or expanded businesses with their former employees.

3.3.1.3 The Nationalist Era (1945–1950s) - The emerging era of private indigenous entrepreneurs

After the colonial era ended, discriminatory actions against Chinese Indonesians continued. For example, under the presidency of the first president–Soekarno, the new government introduced a program called “*indonesianisasi*,” a term refers to the replacement of Dutch officials and managers by Indonesian indigenous (*pribumi*) in the government bureaucracy; and a preparation for the nationalisation of the remaining Dutch business assets in Indonesia. Many of the Indonesian *priyayis* who were employed as officers by the Dutch colonial government, continued working to manage the used-to be Dutch firms.

It is clear that ‘*indonesianisasi*’ is a conscious effort to give more opportunities to the “*indigenous*” people to actively take part in national economic activities, and to deliberately discriminate the non-indigenous people, i.e. Europeans, Chinese, Arab or Indian descent (Sutter 1959 in Lindblad, 2002). However, the program was not as successful as previously planned to be. Being in a stage of “*infancy*,” the new Indonesian government did not have the necessary skills and sufficient resources to run the state. In needs of financial capital and management skills to build the country, the government then invited the private sectors to take part. Most of the private companies were owned by Chinese who were much more experienced in commerce (Simanjuntak, 2001).

The first economic development program in Soekarno era was popularly known as the “*Benteng*” program. In Indonesian language, *Benteng* literally means “fortress” (Echols and Shadily, 1992). As the name implies, *Benteng* program, which was initiated in 1950, was concentrated towards the continuation and protection of trading activities previously undertaken by the Dutch. It was also a protection program for the Indonesian indigenous businessmen (the *pribumi*). For example, the *pribumi* was given a priority to apply for restricted import licenses. However, the government initial intention to protect the *pribumi* resulted in corruption of the state officers in issuing the licenses to non-indigenous (Chinese) businessmen. Moreover, having difficulties in getting such license, many Chinese built business partnerships with the *pribumi* and used their partners’ names to obtain it. At the end, in reality, the Chinese in fact owned 90% of the listed import firms. Despite the failure of the policy which was finally brought to an end, this period marked the emergence and adaptation of new organizations of entrepreneurial forms, especially by indigenous people. By mid of 1950’s a sizable group of indigenous Indonesian entrepreneurs had emerged quite substantially (Sutter 1959, in Lindblad, 2002).

To conclude, discrimination against Chinese Indonesians did not come to an end when the Dutch colonisation ended in Indonesia. It continued in the Nationalist Era. However, the continued discrimination did not stop Chinese Indonesians from getting involved in business and trades. For example, being prohibited in getting import licence, Chinese established relationship with *pribumi* and government officials to work for them as partners in order to get access for the license. Thus, the relationship was built based on mutual benefits for both parties. Here, when Chinese cannot engage in relationship with their fellow Chinese men, they engage in relationship by cooperating loosely with other agents who had the influential agents to allow them to handle external complexity.

3.3.1.4 New Order - Soeharto Era (1966-1980).

This era marked an important history not only for Javanese, but also for Chinese business community in Indonesia. As discussed earlier on page 26, the Javanese '*priyayis*' powerful position as bureaucratic elite continued in the modern era, especially in the New Order when many of them were appointed to be part of 'inner-circle' in Soeharto's government. These people served as important leaders not only in the military, but also in business sectors (Goodfellow, 1997). As a result, many government strategic and important decisions are concentrated in the hands of these Javanese officials, which in turn, influence the overall national cultural, political and economic affairs.

This era is also the most important period for further Chinese social and political issues; as well as economic developments in Indonesia. The long history of continuous discrimination towards Chinese Indonesians reached its peak following the break of Indonesian-Chinese diplomatic tie (Schwarz, 1994). The government issued several regulations, basically trying to cut-off relations between Chinese in Indonesia and their friends and relatives in China; as well as to slash down Chinese economic power. The regulations were also an institutionalised form of abandonment of Chinese socio-cultural values in the country. For example, the government prohibited Chinese trading activities in the rural areas; closed all Chinese schools in the country; banned the use of Chinese language (spoken or written) as well as the celebration of Chinese festivities. Not only that, Chinese were also prohibited to join-in the military, academia, and government services, reinforcing them to engage in business (Schwarz, 1994). This continuous discrimination towards Chinese in Indonesia left them with nothing but to comply with the regulations. While most Chinese Indonesians engaged in business, the *pribumis* mostly worked for the government (Schwarz, 1994).

However, despite the severe discrimination, the New Order was an important era for the emergence and development of large Chinese corporate groups. When Soeharto took over the government, the national economy was in a bad shape. Soeharto was forced to balance and rebalance conflicting views and interests among the diverse domestic and international socio-political groups Barber (1997). Soeharto and his generals basically did not have sufficient business experience. Hence, in his attempt to respond the demands of international economic environments and domestic socio-political groups, Soeharto relied on three major groups of people, whose policies and strategies were critical in shaping the country's future political and economical issues.

The first group was the “*technocrats*” – the young foreign educated economists, who controlled economic policy making in the mid 1966-1970s. The second group consisted of economic nationalists who believed that the state should play the major role in building the nation economy, particularly by helping *pribumi* businessmen to compete with the dominant ethnic Chinese firms. One of the most prominent figures in this group was B.J Habibie who introduced the development of “strategic industrial sectors” managed and controlled by the state. The third consists of businessmen, who were also known as Soeharto’s “crony businessmen,” a name given to them because of their close relationships with politicians, including a number of the president’s family members as well as government officials (Schwarz, 1994; Barber, 1997; Kingsbury. 2001).

Following the oil boom in 1973 the government implemented import substitution policy and several other important regulations in an attempt to boost national economic development. Import substitution was restricted to certain strategic industries, such as: fertilizers, cement and agricultural machinery and automobiles (Ishida, 2003). During this period, Chinese corporate groups began entering major manufacturing activities. For

example, Soedono Salim founded Bogasari flour mills in 1969; William Soeryadjaya established a joint venture with Toyota Motor Corp in 1971 for importing, assembling and selling automotive; The Ning King established PT Darma Manunggal – an integrated spinning and weaving industry in 1972; and Prajogo Pangestu founded a plywood manufacturing company for exports in 1977 (Schwarz, 1994; Kingsbury. 2001).

Despite of its successes, the New Order was labelled by university students as ‘bureaucratic dictatorship,’ and government officials were judged as having deviated and abused their power resulting in an erosion of the authority of government institutions and in too much concentration of power in the hands of government officials (Bresnan, 1993, pp. 67). As a consequence, the rapid national economic growth had made country became highly in debt of and dependent on foreign loans and investments. Government policy, capital accumulation by high-ranking officials (including the president’s family), together with Chinese businessmen business activities were blamed for draining the nation’s wealth (Bresnan, 1993). This so-called Soeharto’s “crony businessmen,” were believed to have “amassed wealth through government- granted import and trading monopolies, privileged access to government contracts and the state bank credit, and the ability to bend government policies in their favour. In return, ‘they bankroll a good measure of Soeharto’s patronage activities and stand ready to provide emergency funds in crisis situations (Barber, 1997, Section III, pp. 2). Hence, the three major groups have different roles in the national economy. While the technocrats could have significant impact on broad policies (economy, monetary policies and major allocations of resources), they had little influence on the actual implementation of the policies. Conversely, the cronies had little to say about economy and monetary policies, however, they often had decisive influence over decisions affecting specific deals and industries where their own economic interests are implicated (Barber, 1997).

Interestingly, unlike previously believed by many, despite the continuous discrimination against Chinese Indonesians, not all Chinese business groups help each other by establishing kinship (blood related family) *guanxi* relations. For example, William Soerjadjaja – the founder of ASTRA International, one of the biggest private corporate groups in Indonesia, being a Chinese *peranakan* (page 41, he neither spoke Mandarin nor any Chinese dialect, and thus did not have access to the so-called ‘trans-national’ funds which were provided by other ethnic Chinese. As a result, William sought to arrange joint ventures with foreign companies and to procure funds from capital markets (Sato, 1996). Moreover, unlike Chinese *totok* corporate groups e.g., Salim Group and Sinar Mas Group, which had the tendency to hire their Chinese family members or friends as top managers to be part of their ‘in-group,’ William hired professional *pribumi* managers as top management (Sato, 1996).

As a conclusion, this era marked an important history not only for Javanese, but also for Chinese business community in Indonesia. The *priyais* involvements as bureaucratic elites became more evident under Soeharto’s government. They served as important and powerful agents for much government strategic and important decision. Their influence in the overall national cultural, political and economic affairs was inevitable. This era was also the most important period for Chinese Indonesians in terms of social, political, as well in business activities in the country. Due to discriminatory legislations which abandoned Chinese language, socio-cultural practices, as well as closing down Chinese schools in the country, many Chinese were afraid to go to Indonesian schools, thus many had to quit schools. Moreover, regulations to prohibit Chinese to join-in the military, academia, and government services, forced Chinese Indonesians to engage in business. As a result of such regulations, Chinese Indonesians became more and more skilful in business and trades, while many *pribumi* were mostly

engaged as government employees and bureaucrats. Having more experience and skills in business, Chinese Indonesians were invited by the government to participate in the 'infant' national economic development. As a result, large Chinese corporate groups emerged and developed in this era. Thus, even though politically, the new order was full of political unrest, this era was a critical era for the establishment of major large Chinese corporate as products of government regulations in its attempt to initiate an industrialised nation using import substitution policy. Similar to the previous eras, Chinese in this era managed their external complex and violent environment by absorbing the complexity and got involved in cooperating loosely with other agents, especially those who have the institutional influence, i.e., engaged in relationships with influential high ranking government officials and their family members. Moreover, Chinese also engaged in *guanxi* relationships with their 'family' and friends. For example: Chinese *totok* had the tendency to build *guanxi* relationship with and support their fellow Chinese men ('family') by providing each other with necessary capital. On the other hand, the Chinese *peranakan* tend to engage in relationship with non-Chinese friends and foreign investors.

3.3.1.5 The Modern Era (1980-1997) – Emergence and Adaptation of New Organisation Forms (conglomerate form)

The beginning of the modern era was marked by two major events, namely: the Chinese Open Market Economy in the late 1978 and the Plaza Accord 1985 (Carney and Gedajlovic, 2002). While the Chinese open-market policy had attracted massive flows of Foreign Direct Investment to the country, the Plaza Accord had stimulated the movement of capital into and within ASEAN countries as a result of Japanese Yen appreciation against US dollar. The situation opened up wider business opportunities for many corporate groups in this region, including in Indonesia, which were mostly owned by family groups. They had benefited these capital flows through

increased subcontracting business and partnerships with the Japanese and later with Western Multi National Enterprises.

Export orientation Era

In the early 1980s, the effectiveness of the import substitution policy was put into serious questions by several economists, arguing that such policy created highly protected businesses. In response to the situation, the government started to change the import substitution policy to export orientation. However, government regulations encouraged many Chinese firms to diversify their businesses to a conglomerate form of organization (Temple, 2001; Ishida, 2003). For example, in 1986, imports were liberalized for export-oriented businesses; and unprocessed wood products were not allowed to be exported; and investment and production on certain products were restricted. Economist Djisman Simanjuntak argued that most of the regulations imposed by the government during the eighties promoted *extensive* investments rather than *intensive* investments. What he means by this is that business profits generated by the Chinese are not used intensively for the business from which the profits are generated, but rather have to be invested in other businesses because some government regulations prevent them to do so (in Schwarz, 1994). This situation promotes conglomeration of particular industries. As a result, during this era many Chinese-managed organisations turned into conglomerate forms. By 1996 there are a total of 300 conglomerates, 170 of which were founded in the period of 1969 onwards, i.e. in the New Order Government in Soeharto Era (Table-3) (Indonesian Business Data Centre, 1997).

	1988	1996
Before 1946	13	10
1946-1968	125	120
1969 forward	162	170

Table- 3 Formation of conglomeration in Indonesia 1988 - 1996

In terms of ownership, in the period of 1988-1996, the non-indigenous groups in total owned 137.4 conglomerate establishments, which accounted for 68 percent of the total establishment (Husnan, 2001).

In the 80s, many of the children of Chinese businessmen who studied in foreign countries had returned back to Indonesia to work in their parents' businesses after completing their higher education. Besides, more skilled managers were also available from domestic tertiary education. Collectively, the Chinese firms became more attractive to foreign investors to finance their projects. During this period, investment from abroad had played a crucial role in the Indonesian economic resurgence which began in the late 1980s (Schwarz, 1994). When petroleum was excluded, Japanese investment accounted 68% of all foreign investments (Bresnan, 1993). By then, the Chinese businessmen dominated the private sectors. For example, by the end of the 1980s, the national economic activities were dominated by the Chinese business groups who owned 163 out of 200 business groups (Data Consult, 1989). Economist Sjahrir also argued that the Chinese owned at least 80% of publicly listed companies at the Jakarta Stock Exchange (Husnan, 2001).

In line with rapid economic development, in mid 1980s, the government encouraged the private sectors (i.e. mostly Chinese-owned businesses) to join with state-owned companies. The joint companies involve in cement, flour, basic chemicals, paper, petrochemicals, fertilizers, pharmaceuticals, shipbuilding, electric power generation, and coal production. It was estimated that the Chinese businessmen were secretly in partnership with numerous high military and civilian officials and three-fourths of the loans from state-owned banks were used to finance these joint operations (Bresnan, 1993).

Again, like in other earlier periods, during this modern economic era, Chinese economic success was an internally driven process by Chinese business groups. They managed to attract and invite foreign investments into the country. It did not entirely involve the participation of those in power.

Major financial reforms

The rapid economic expansion in this era created excessive needs of financial capital from domestic as well as international financial institutions. In response to the needs, the government launched several major financial regulations. One of the major regulations imposed by the government in the banking sector was ‘PAKTO 88 = Paket Oktober’ or ‘October Package 1988,’ which resulted in significant changes in the banking sector, for example: a) open up of the banking sectors to new entrants; b) reducing restrictions on foreign exchange transactions; and c) increasing access of domestic banks to international financial markets. As a result, the total number of banks increased dramatically and it was then easier for companies to borrow from foreign financial institutions.

For comparison, private commercial banks increased from 559 to 4,150 banks in the period of 1988 – 1997. Foreign banks increased from 11 to 44, and state-owned banks expanded its network from 815 to 1,527 within the same period (Simanjuntak, 2004). We can see that private domestic banks dominated the banking sector in terms of number and total assets. However, in terms of assets per bank, state owned banks were still the largest (i.e., Bank Negara Indonesia). Assets and liabilities were concentrated in the top 10 banks, including Bank Central Asia, Bank Internasional Indonesia, Bank Danamon, and Bank Umum Nasional, all of which were affiliated with major private corporate groups (including Chinese-owned). Thus, the new emerging private banks were owned mostly by major private corporate groups, who also made use of their own banks for intra-group financing.

Another major financial reform was launched just one year after PAKTO 88, when the government also reformed the capital market, allowing foreign investors to own as much as 49% of listed shares; abandoned the practice of setting price for Initial Public Offerings; and removed the restriction on price movements in the secondary market.

Those two above mentioned regulations collectively generated major sources for financial capital for the corporate sectors, many of which belong to the private corporate groups of companies that had strong connections with the political elites. As a result, the number of listed company increased from 24 in 1988 to 306 in 1997 (Simanjuntak, 2004).

As a conclusion, like the previous eras, Chinese Indonesians' initial engagement in large commercial activities before the 1997 Asian financial crisis was also due to their experience, knowledge and business skills, not because of bribes. They were invited by the government to take part in national economic development allowing them to have opportunities to expand their businesses into manufacturing activities in 'strategic' and important industries. Chinese economic success during this modern economic era was also a result of an internally driven process by Chinese business groups. Having more experience and expertise in business, Chinese Indonesian corporate groups managed to attract and invite foreign investments into the country. Thus, it did not entirely involve the participation of those in power (including fellow Chinese men). Similar to earlier eras, Chinese success in this era was also due to their strategies in absorbing the complexity by cooperating loosely with a number of other organisms, to provide Chinese with a mechanism to share information and risk and thus, enhance agents' capability to deal with a wider range of environmental contingencies. Thus, Chinese success was mostly due to their cooptation strategy with various related (powerful) agents. For

example: partnerships with high ranking government officials allowed Chinese corporate groups to receive import and trading monopolies, to gain privileged access to government contracts and the state bank credit, as well as the ability to bend government policies in their favour based on mutual benefits (Barber, 1997).

3.3.1.6 Post Asian Financial Crisis in 1997

However, the rapid economic expansion in this era at the same time also created excessive borrowings and explosion of bank credits not only through domestic financial markets, but also through the foreign financial market which offered more favourable interest rates. These foreign exchange borrowings increased foreign exchange exposures which were not hedged appropriately due to stable depreciation rates of +/- 5% in the past. Due to the weak international financial management, a number of large business groups, including Chinese-managed corporate groups, ended up in severe financial problems caused by heavy foreign exchange debt which was exacerbated after July 1997 major devaluation against the Rupiah by almost 400% (Husnan, 2001; Iriana, Sjöholm, 2002; World Bank, 2003). The situation contributed a lot to the severe Indonesian financial crisis in 1997 which affected the country not long after it was started in Thailand in July 1997.

Economists argue that the severe financial crisis in Indonesia was due to external contagion as well as internal structural/institutional weaknesses, one being the financial sector (Djiwandono, 2003). The rapid economic expansion that caused the massive need for domestic as well as foreign capital was not supported by solid regulations, creating non-performing loans (NPLs) in many banks, especially state-owned banks. These bad NPLs had forced several private banks to declare liquidation, causing massive deposit withdrawals driven by the panic customers, which in turn, created serious liquidity problems (Simanjuntak, 2004). In an attempt to

rescue these ailing banks, the central bank Bank Indonesia rescued them by using emergency liquidity support. However, the rescue attempt drained the central bank's liquidity position, forcing it to issue massive amounts of restructuring bonds.

Later on, the ailing banks were submitted to be managed by IBRA (Indonesian Bank Restructuring Agency) an IMF-led rescue programme in January 1998. IBRA helped restructure the ailing banks by disposing their assets to the public as well as to the government. While the restructuring program is still on the way, devaluation of *rupiah* was inevitable due to high demands on US dollars, forcing Bank Indonesia to free-float the foreign exchange rates in just few months after the devaluation (Ishida, 2003). Since then, *rupiah* was never stable and in certain cases, the fluctuation was pretty volatile. For example, it plunged down from ± Rp. 2,500./USD in 1997 before the crisis to Rp. 16,900/USD by mid 1998 (Ishida, 2003). As a result of *rupiah* devaluation, most companies that relied heavily on imported raw materials were forced to close down, creating an increased unemployment and social instability. Only export oriented companies and resource-based industries with low import content industries managed to survive (Ishida, 2003; Simanjuntak, 2001).

As a result of the continuous economic crisis, many Chinese conglomerates as well as other Soeharto's crony businessmen were blamed for the crisis. Not only were they blamed for their unfair KKN (connection, collusion and nepotism) practices, but also due to the fact that at that time of the crisis, majority of the national capitalisation was highly concentrated in the hands of only fifteen biggest family-based private corporate groups of companies (Schwarz, 1994; Husnan, 2001). They were reported to control over 61.7 percent of the total market capitalization in 1996 (Husnan, 2001). This suggested that Indonesian national economy was highly concentrated by

only few family-based private corporate groups of companies who had strong connections with the political rulers, creating a fragile and unstable national economy. Thus, when their businesses collapsed, the whole national economy plunged down along with them.

The continuous financial crisis, not only created economic envy towards Soeharto crony businessmen (including Chinese Indonesians), but also caused racial tensions (Suryadinata, 1999). As a result, historical political turmoil, social instability and riots, burst out in May 1998 forcing Soeharto to step down, followed by massive 'organised' riots in bigger cities throughout the country, which was mainly targeted towards Chinese Indonesians (Suryadinata, 1999).

Following the vicious May riot, some 100,000 Chinese families were believed to have left Indonesia to neighbouring countries. It was also predicted that they took with them some 100 billion US dollars to be invested abroad. Due to crucial roles of Chinese businesses in Indonesia this so-called Chinese 'exodus' had not only caused 'capital flight' but also aggravated the already ailing national economy (Suryadinata, 1999).

Many of the big Chinese groups have problems in surviving, including Salim Group – the largest private corporate group before the crisis; and ASTRA International, a portfolio of business that consists of 199 domestic companies and 5 foreign affiliates (Simanjuntak, 2001).

What are the strategies in the future for Indonesian economic recovery? In an attempt to recover the national economic condition, the newly elected Indonesian president, Susilo Bambang Yudhoyono of GOLKAR political party, has made a strong commitment to push forward trade liberalisation and joint efforts for the establishments of trade area between the 10-nation ASEAN and China, as stipulated in President's Decree No. 48, 2004

regarding the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China (www/dprin.go.id/regulasi/English/2004/06/KP_48_04.html)

When this study was carried out, resentment towards Chinese in Indonesia had slightly decreased. Many believe that Indonesian economic recovery depends on the country's stability and a harmonious relationship among different ethnic groups (Ivy Susanti - The Jakarta Post, February 17, 2005).

3.3.1.7 Overall conclusion on Chinese strategies in dealing with a complex and unpredictable environment.

1. External approach

Chinese managed their external complex and unpredictable environment by cooperating loosely with other agents (Chinese and/or non-Chinese), who had the 'institutional influence to allow them to handle external complexity which derives mainly from the bureaucracy and its manifestations or arbitrary behaviour,' i.e., government officials and their family members (Boisot and Child, 1999). Thus, in other words, Chinese are flexible and pragmatic. They engage in relationships with anyone, as long as the relationships are based on durable personal relationship on the basis of mutual benefits. They play the game according to situations that benefit them in the long run. When the players of the game change, the struggles of power among them also change, which may also alter the rules of the game (Bourdieu, 1991)

2. Internal approach

a. Limiting important information diffusion to 'in-group' - trusted family members or non-family members who have close personal relationship with decision-makers (managers/owners) (Hall, 1960); Thus, it is common in Chinese-managed organisations to have

employees/staffs selected based on family or friends' referrals, without having to go through normal/transparent recruitment and selection process;

- b. Engaging in frequent face-to-face informal contacts and personal relationships that provide the agents with environment of more social solidarity and understanding (Richerson et al. 2003). Relationships within the organisation are like relationships among family members. This is also necessary to build and maintain trust and credibility among members (in-group) (Hall, 1960);
- c. Maintaining low level of information codification and abstraction for faster data processing processes that leads to higher efficiency. This is also to prevent important information to be disclosed to 'outsiders' (Hall, 1960);
- d. Establishing shared goals through a process of negotiation to reach consensus in order to enhance collective identity and mutual understanding and to prevent disorder and chaotic situation (Boisot and Child, 1999). This means, there is strong sense of belongingness; and good cooperation and coordination (Axelrod, and Hamilton, 1981; Richerson et al. 2003) towards organisation's goals, which in all are operated based on the concept of '*family*' as the most important building block of an ordered society;
- e. Coordinating activities horizontally through team-based projects and business process operations with low level of specialisation to allow information/knowledge sharing, as well as risk-sharing. Projects are arranged based on duties and responsibilities. As a result, an agent may be involved in different projects and thus, have different and conflicting roles. However, this process provides employees with opportunities to learn different things with different team members;
- f. Maintaining didactic leadership. Leaders' roles are more like colleagues, facilitators, and coach in directing and giving guidance to subordinates. This is because leaders are expected to have more

knowledge and experience due to their interactions with external as well as internal influential agents (Tsui, Fahr and Xin, 2000).

One of the most important roles of a leader is to coordinate all interrelated organisational activities and build a 'learning' organisational culture to allow members to communicate, give feedback, and thus sharing experience and information. For such process to be successful, good interactions, intensive relationships – full of trusts and organisational commitment among members are necessary. In Nonaka's term, such an environment is called 'ba,' in which agents exchange information and share knowledge to be internalised and be subsequently turned into organisational knowledge (Nonaka et al, 2000). Leaders are also expected to be involved in resolving conflicts and problems that might arise, sometimes, personal problems.

3.3.2 Managerial values and Business practices in **Javanese**-managed organisations

Historical background of Javanese interactions with people from different parts of the world, including with Chinese, Indians, and Arabs, had certainly created a unique blend of Javanese social cultural mix. Moreover, Javanese powerful position in Indonesian history has also impacted their social cultural values, which in turn influence their organisational behaviours. For example, Javanese social stratification and principles of life based on *hormat* (respect), *rukun* (harmony), *nrimo* (acceptance); as well as the four etiquettes of the *priyayis* certainly have impacts on managerial values and Javanese business cultures as well.

As has been discussed earlier, Javanese society tends to engage in **fief** social institution as a strategy of dealing with a complex environment. Boisot and Child have identified cultural characteristics of fief social institution (page 11) as follows: It absorbs environmental complexity by engaging in face-to-face personal relationship with limited information codification and diffusion; operates with

shared values and beliefs; manages relationships among members based on social hierarchy on a feudal/charismatic basis, which results in hierarchical coordination and submission to super-ordinate goals (Boisot and Child, 1999).

Similar to clan/network, *fief* social institution also has external as well as internal approaches in managing their complex and unpredictable environment, as discussed in the following.

3.3.2.1 External approach

The external approach is similar to the strategy implemented in Chinese-managed organisations, which is implemented by building more intensive relationships with external partners, including government officials and other prominent business practitioners. However, due to social stratification in Javanese society, partners are selected based on different elements, such as: social status (class), religio-views, life-styles, gender, relative age, wealth, position, and occupation. Unlike clan/network social institution where partners are selected based on family, filial piety and *guanxi* on the basis of *wulun* and mutual benefits, *fief* institution only treats nuclear family as the most important part of their lives (Geertz, 1961). Thus, unlike Chinese, relationships among non-nuclear or extended family members are not very strong among Javanese. As a result, durability of relationships among members in a *fief* institution depends very much on those elements mentioned above, i.e., social class, positions, wealth, and so on. Such relationship is not as durable as *guanxi*-based relationship.

3.3.2.2 Internal approach

1. Similar to the external approach, internal approach of dealing with a complex and unpredictable environment is employed by engaging personal but hierarchical relationships based on social elements discussed above, even though, this is more evident in *priyayi* families. For example, as discussed on page 26 having a wife of a *priyayi* family,

President Soeharto appointed Javanese, many of them were '*priyayis*' as bureaucratic elites to be part of his 'inner-circle.' Most of them served as important leaders not only in the military, but also in business sectors (Goodfellow, 1997). Since only nuclear family is the most important family for Javanese, those who belong to the 'inner circle' are not necessarily family members. It is mostly composed trusted and dedicated staffs, who are employed based on recommendations/referrals of other family members/close friends. Unlike Chinese, Javanese family members do not have a strict obligation to help relatives by hiring them to work for them, especially those of distant family members. Also Javanese social strata make it more difficult for staffs of lower levels (lower social class, positions, age, etc.) to build close and personal relationship with staffs of higher levels. And the concepts of '*nasib*' (fate) and '*nrimo*' (accepting destiny), tend to make Javanese to accept their predetermined life situation. They believe that only by accepting destiny without questions (*ikhlas*) and seek calmness, relaxation and freedom from excitement can one live happily. As a result, Javanese people tend to accept everything without protest, thus, more submissive (Goodfellow, 1997).

2. Important information is limited and diffused mainly to certain 'in-group' staffs by face-to-face contacts, i.e., low codification and abstraction. These staffs are trusted by managers/owners. Similar to Chinese-managed organisations, it is common to have employees/staffs selected based on family/friends' referrals without having to go through formal recruitment and assessment process.
3. Because of hierarchical relationship, communication in Javanese-managed organisations is more formal, especially communication between staffs of different social structure, positions, age, and gender. Personal, close and informal relationship is more possible among people having the same social structure, thus, in horizontal relationship.

4. Total submission to super-ordinate goals created highly centralised and bureaucratic organisations. Important decisions are centralised in the hands of managers/owners or trusted to certain staffs, however with limited authority. Manager's/owner's opinions are normally considered as 'orders' that must be obeyed without questions.
5. Overall, organisational activities are coordinated hierarchically with high specialisation
6. In terms of leadership, Javanese-managed organisations maintain authoritative leadership style and leaders are expected to be 'exemplars' as well. Leaders are expected exhibit wisdom, benevolence, proper etiquette, and show good 'image.' *Alus* behaviour has to be maintained all the time especially in public (Geertz, 1960; Suseno, 1997).
7. For all the above practices to be possible there is a necessity to share values and beliefs.

3.4 Chapter Summary

This study treats organisations as autonomous and adaptive social systems in a complex environment. It is approached based on Boisot and Child (1999) conceptions of institutionalised social interactions in managing information complexity which arises as organisational agents interact with each other and exchange information. Social interaction is complex because as autonomous individuals, agents have freedom to decide what to do and how to do it, but at the same time, they are also confined to certain rules and regulations as well as social norms in the society they are embedded. Thus, interactions among individuals in social systems carry with it the idiosyncratic quality and cultural values of interacting agents. For example, cultural attributes in Chinese society are very much influenced by Confucianism that treats family as the basic building block of the social order. Thus, all efforts are concentrated for the family and extended family based on reciprocal relationships which are regulated in *wulun* (filial piety) which regulates the nested hierarchical relationships. As a result, interactions among 'family' members create inevitable relational as well as cognitive complexities. Thus, Chinese tend to absorb the complexity rather than reduce it, which is approached

by: 1) engaging in intensive relationships with relevant as well as prospective clans/partners who know the business environment pretty well, including ‘co-opting’ with partners who have institutional influence to handle the external complexity which derives from bureaucracy and its manifestations of arbitrary behaviour; 2) limiting information diffusion by lack of codification and abstraction to face-to-face relationships; 3) building personal, non-hierarchical relationships with organisational members through frequent face-to-face contacts; 4) establishing shared goals through a process of negotiation to enhance collective identity and mutual benefits; and 5) coordinating organisation horizontally with low level of specialisation through negotiation. Thus, Chinese society tends to engage in *guanxi*-based network relationships in order to reduce unpredictability and complexity of human interactions.

Similar explanation can be applied to Javanese society. Information complexity is absorbed by maintaining low level of codification and abstraction based on proper use of language forms and etiquette of good conducts according to one’s social structure. As a result, the hierarchical and rigid social structure in Javanese society creates a high degree of cognitive complexity as well as limited information diffusion to only few people who belong to the same social class. Moreover, unlike principles of *guanxi*-based relationship in Chinese, relationships in Javanese society are based on horizontal stratification with the strongest relationship being in nuclear family. Relationship with other kinsmen of non-nuclear family varies among families, where non-nuclear families do not have obligation to help each other. Only the more well-to-do families are expected to help other kinsmen in needs, but with no strict obligation. As a result, compared to Chinese, it is easier of Javanese to make independent decisions without having to consider other kinsmen, especially those who are in the lower social class. Besides, the basic principles of values in Javanese social life which are based on *rukun* (harmony), *hormat* (respect), *nrimo* (acceptance of fate) and *ikhlas* (without question) tend to make Javanese more submissive. Statements from people of higher levels (superior) are considered as orders – taken without questions. This is evident especially in lower class of Javanese (subordinate). Hence, Javanese social institution, including Javanese-managed organisations tend to operate as fief social institution, which is generally characterised

by: limited information diffusion, lack of codification and face-to-face relationship, personal and hierarchical (feudal/charismatic) relationships, submission to super-ordinate goals, hierarchical coordination, and shared values and beliefs. However, relationships based on social structures are not as durable as relationships based on *guanxi*.

Thus, Boisot and Child's ideas of social institutions as products of social cultural values is very useful in explaining the impact of managers' social cultural values on organisational strategies in dealing with a complex environment which are reflected in their business practices. Based on their ideas this study explains the underlying reasons for managerial values and business practices in Chinese and Javanese-managed organisations.

IV. RESEARCH METHODOLOGY

As discussed in earlier chapters, Boisot and Child (1999) as well as Tian and Cone (2003) suggest Chinese-managed organisations and Western-managed organisations in China have different approaches in dealing with a complex and unpredictable environment, which are reflected in their business practices. Boisot and Child (1999) argue the differences are due to their institutionalised social interactions as products of their social-cultural values as well as historical trajectory development. Based on Boisot and Child's (1999) concept, this study explores Chinese and Javanese institutionalised social interactions (discussed in part 3.1 and 3.2) and relate those to their managerial values and business practices. For that purpose, social cultural backgrounds of influential organisational decision-makers are observed (i.e. senior managers).

As defined earlier, Chinese managed organisations are referred to as organisations with majority of their senior managers having Chinese ethnic background. By understanding their managerial values that are reflected in their business practices as organisational strategies in dealing with a complex and unpredictable environment, we might be able to explain the underlying reasons why there are different business practices in different organisations. In this

study, Chinese-managed organisations are compared to Javanese-managed organisations as the dominant cultural group in the country.

This chapter describes the research methodology used in the study. It is divided into five sections. The first section covers research design (research instrument); the second section describes the process of identifying data collection method and sample; the third section covers translation process of the research instrument; the fourth section discusses the process of data analysis; and the last section summarises of the chapter.

There are several stages for carrying out the study, as follows: 1) research design; 2) identification of data collection method and sample; 3) research instrument translation into Indonesian language; 4) data collection; 5) data codification into SPSS; and 6) data analysis.

4.1 Research Design

The main survey instrument in this study is a questionnaire (appendix-1). Because there was no instrument available that tap the exact same construct I need to measure, the instrument was constructed based on a similar instrument developed by Adams G. and Vernon H. (2001) on business culture and practice in Thailand (appendix-2), with some modification. The modification was constructed based on the main concept of this study - information complexity management in different social institutions introduced by Boisot and Child (1999).

The questionnaire is divided into seven sections, containing information of: 1) respondents' personal demographic profile; 2) respondent's jobs; 3) respondent's personal objectives and preferences; 4) respondents' values; 5) respondents' firms; 6) business cultures and management practices; and 7) respondents' perceptions about business cultures and management practices and the current business situations in Indonesia in general. A five point Likert scale ranging from 'strongly disagree' to 'strongly agree' is used to measure all scales.

4.2 Identification of data collection method and sample

There are several data collection methods available for a survey, for example: direct mail, computer-aided data collection and direct distribution, each of which has strengths and weaknesses. However, data collections method is decided in conjunction with sample identification process, as they are not separable. The decision was based on several considerations, for example: qualification of the sample to understand research methodology and constructs of questions; the total number of respondents needed to for reliable information; the method used to collect data in the most efficient and effective way for a particular analyst/researcher (Frazer and Lawley, 2000).

In this study the above factors become more critical because the researcher is domiciled in New Zealand, while the target respondents are managers in Jakarta-Indonesia. Thus, geographical disparity adds to the complexity of research conducts. Due to the situation, direct data collection procedure was selected and a business school of good reputation in Jakarta was selected for questionnaire distribution, for the following reasons:

- 1) Jakarta is the capital city of Indonesia. It is also the centre for business activities of various national and multi-national companies.
- 2) Majority of respondents (91.4 %) have undergrad qualification and 74.25% are currently pursuing MBA qualification (see ch.5 or appendix-3 for demographic profiles). Thus, they are familiar with survey methodology and are considered as qualified in terms of education.
- 3) MBA students of well reputed business schools have gone through a series of enrolment selection process, thus are qualified in terms of working experience and practical knowledge. As managers and/or owners, the respondents are assumed to be very much involved in organisational decision-making activities, and as such their social cultural values presumably determine their organisational business cultures and management practices. Hence, these respondents are the right target for a social study like this one.
- 4) Demographic profiles of respondents represent sufficient variability in terms of personal profiles as well as organisations types and business activities, and thus, are considered representative.

- 5) Direct data collection procedure is more efficient because it allows the researcher to collect data quickly, if not immediately. It was also considered as effective because it gave opportunities to respondents to ask the researcher directly, should they need further clarification on the questionnaire.

4.3 Translation of research instrument

The questionnaire was initially developed in English and then translated into Indonesian language (bahasa Indonesia) by the researcher with verification of a certified translator in Jakarta (appendix-4). Even though majority of the target respondents were familiar with English, however translation was necessary to help them feel more comfortable and confident to participate.

4.4 Data collection

4.4.1 Sampling

Questionnaire was distributed directly to 334 (three- hundred-and-thirty-four) respondents; 248 (74.25%) of them were MBA Executive students of Prasetiya Mulya Business School, one of the top private business schools in Jakarta. The other 86 respondents (25.75%) were participants of managerial In-House Training program of the same school.

4.4.2 Procedure

With lecturers' permission, questionnaire was distributed in the beginning of class, after a brief introduction and explanation by the researcher. In the case where the researcher did not get a permission to have respondents filled-in the questionnaire before lectures, respondents were allowed to bring the questionnaire home and returned it to their class coordinators after completion, which then to be collected by the researcher. In most cases (roughly 75%), the questionnaire was filled-in the class before lectures, allowing the researcher to collect them immediately. Thus, all respondents had equal chance of being selected (randomization approach); however, had freedom to participate to take part by completing the questionnaires or not (Rudestam and Newton, 1992).

4.4.3 Response rate

A total number of 221 copies of the completed questionnaire were collected out of 334 copies distributed. There is 66.17% response rate, and thus regarded as sufficient (Kline, 1994).

4.5 Data analysis

Data is run by SPSS (Statistical Package for the Social Sciences) and analysed using factor analysis. Independent variable used in the study is: majority of ethnicities of senior managers in a firm.

Factor analysis is employed for the following reasons:

- 1) This study is based on social cultural approach and factor analysis is a statistical technique widely used in psychology and social and behavioural sciences (Kline, 1994).
- 2) This study is an exploratory study, and the main instrument has never been tested in the past. Factor analysis makes it possible for us to primarily analyse the relationships among the survey items. The underlying assumption is that there exist a number of unobserved latent variables (or "factors") that account for the correlations among observed variables, such that if the latent variables are held constant, the partial correlations among observed variables all become zero. In other words, the latent factors determine the values of the observed variables. Factor analysis allows us to discover the main constructs or important value dimensions by simplifying complex sets of observable variables in terms of a small number of latent (inferred or unobserved) factors. Thus, it is used to assess the construct validity of a test or a scale (Kline, 1994).
- 3) Lastly, respondents' personal profiles and their organisations backgrounds (organisation types and activities) (section 5.2 and appendix-3) represent sufficient variability of the sample for conducting a factor analysis. Lastly, the samples are not only representative but also sufficient in size ($n = 221$) (Kline, 1994). Thus, all the necessary requirements for conducting a factor analysis are fulfilled.

4.5.1 Steps in conducting Factor Analysis

1) Determinant of Correlation Matrix

The first step in conducting factor analysis is to check the value of the determinant of the correlation matrix in order to find out whether one or some of the questions in the questionnaire should be eliminated. When determinant of the correlation matrix is greater than the necessary value of .00001, there is no need to consider eliminating any questions (Field, 2005).

2) Measure of sampling adequacy

After the value or the determinant of the correlation matrix is checked, the next step is to find out whether the sample used in the study is adequate enough for conducting factor analysis. For that purpose, Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy is approached. Hutcheson and Sofroniou, 1999 in Field, 2005) argue that different KMO values show different levels of sample adequacy. For example, when KMO values of 0.5 or greater, samples are considered adequate; KMO values of 0.5-0.7, sample's adequacy is mediocre; KMO values of 0.7-0.8 are good; KMO values of 0.8-0.9 are great; and KMO values of greater than 0.9 are excellent. Another way of checking sample adequacy is by looking at Bartlett's Test of Sphericity figure. If Bartlett's Test is highly significant ($p < 0.001$), then the sample is appropriate for factor analysis.

3) Eigenvalues and Scree Plot for factor extraction

Knowing sample is adequate for factor analysis, factors are then extracted to support the interpretability of the factors. In many cases, data are analysed several times to arrive at a better interpretation of the factors which represent common theme of variables in that factor. If some of the variables or questions do not represent a common theme in a factor, they should be dropped or eliminated. Non-interpretable factors will not be useful for the study. In this study, the extraction method is Principal Component Analysis (PCA), which is used to summarise and discover main trends and patterns of variation in a set of variables measured over a number of sample locations (Marradi, Jackson and Borgatta, 1981).

As a result of factor extraction, some of the variables/questions are deleted for the purpose of giving better interpretation of the data (Field, 2005). A factor is extracted when it has Eigenvalues greater than 1, because it means the variables in that factor have high co-linearity, and thus, can be classified as a factor. Thus, factors having Eigenvalues less than 1 can be eliminated. Another way of checking co-linearity of variables is to analyse the diagram in a Scree-Plot Test. The diagram shows the rate of change in the magnitude of the Eigenvalues for the factors. In other words, the scree plot shows that the rate of change which tends to decline fast for the first few factors but then levels off. The “elbow” or the point at which the curve bends, is considered to indicate the maximum number of factors to be extracted (Field, 2005). For example, if the rate of change tends to decline drastically after factor 3 and starts to level off in factor 4, it is likely that only 3 factors can be extracted or used for further analysis.

4) Factor rotation

After eliminating variables/questions which do not represent a common theme in a factor, or in other words, after extracting the factors, they are further rotated to arrive at a simpler structure and to achieve a more meaningful and interpretable factors (Fabrigar et al., 1999). In this study I use Varimax rotation method with Kaiser Normalisation. Only factor loadings that are greater than .40 are used to be considered as significant. In general, the larger the absolute size of the factor loading for a variable, the more important the variable is in interpreting the factor. Factor loadings represent the correlation or linear association between a variable and the latent factor(s).

5) Labelling the factors

Rotated extracted factors with high loadings should give better meanings of all factors, thus should represent groups of variables to represent a common theme/pattern in each factor, as such, a label/name can be given for easier identification. Labelling/giving names should represent the closest representations of theme in each factor to give better meanings.

6) Reliability test

After the factors are rotated, the next step is to check whether each factor is reliable/consistent/validity enough to represent a construct in a factor. For that purpose, reliability test using SPSS is carried out to check factorial reliability and validity. The reliability/validity of each factor is shown in the value of reliability coefficient, i.e. alpha, which indicates how large a share of the total variation in the data that is explained by a latent common factor. Conventionally, when alpha is greater than 0.7, the factor is considered as reliable/valid enough (Santos, 1999; Statsoft, 2003). However, problems in getting high alpha value appear when too few items/variables are represented or constructed in a factor. In such a case, alpha value cannot be used to determine reliability or validity of the construct.

4.5.2 Analysis of Variance (ANOVA)

Having done the above steps in factor analysis, a researcher/analyst can start analysing the data according to extracted factors in the previous steps. ANOVA can be applied to find whether there are statistical significant differences (large variance) in the means of each dependent variable in each factor. In this study, the variables is checked at 95% confidence level, thus, if the significant value is less than 0.05 then the effect is said to be significant. It implies that the means differ more than would be expected by chance alone. In this study, the significant effect would mean that there are significant differences in certain managerial values or business practices in different organisations based on majority of managers' ethnicities. If the effects are found to be non-significant, then the differences between the means are not great enough to allow the analyst to say they are different. In that case, no further interpretation is necessary. However in some cases, for the purpose of better explanation, means differences are checked even though statistically they are not significantly different.

4.5.3 Factors to be analysed

There are two factors to be analysed in the study: managerial values and business practices in different organisations.

4.5.4 Independent variables

Independent variable for this study is ethnicity of senior managers in an organisation.

4.5.5 Dependent variables

Dependent variables are all variables/items which have been extracted in each factor. Eliminated variables/items in the questionnaire will not be analysed, thus, ignored in this study.

4.6 Chapter Summary

Since there is no instrument available that tap the exact same construct I need to measure (based on Boisot and Child's, 1999 Information complexity management in different social institutions), the questionnaire as the main research instrument for this study needs to be reconstructed, to allow the researcher/analyst to arrive at better constructs of factors which represent common themes of variables/items in the questionnaire, and to eliminate unrelated questions/variables. For that purpose, factor analysis statistical method is approached. Based on this approach collected data (n = 221) is analysed and the discussion is covered in the following chapter.

V. DATA ANALYSIS AND RESEARCH FINDINGS

This chapter contains information of respondents' demographic profiles, as well as their companies' backgrounds. It also includes the results of the research findings using Exploratory Factor Analysis run by SPSS, as discussed in the previous chapter. The chapter is divided into three sections. The first section describes the demographic profiles of 221 respondents (personal information, their jobs, and their companies' backgrounds). Section two describes research findings; Section 3 summarises the chapter.

As explained in the previous chapter, collected data in this study is analysed by using factor analysis in SPSS (Statistical Package for the Social Sciences). The main purpose for such approach is to primarily analyse the relationships among the survey items, and to allow researcher/analyst to discover the main constructs or important value dimensions by simplifying complex sets of observable variables. Thus, data is analysed according to the six research steps discussed in chapter four.

5.1 Respondents' demographic profiles

Before analysing the collected data, respondents' demographic profiles in the sample is introduced in this section, which is divided into three sub-sections: respondents' personal profiles; information on respondents' jobs; and information on respondents' firms. While covering the respondents' demographic profiles, this section also discuss sufficiency of sample variability as a representation of the total population.

5.1.1 Respondents profiles - Personal Information

In terms of education, 91.4% of respondents at least have undergraduate degrees, 74.25% of them are pursuing further studies for MBA degree. Thus, respondents are qualified in terms of their education.

Description	Percentage	Description
1. Sex		All currently live in Jakarta and its surrounding areas
Male	77.4%	
Female	22.6%	
2. Age		
21-30	31.2%	
31-40	51.5%	
41-50	2.7%	
over 50 years	5.0%	
3. Nationality		All Indonesian
4. Ethnicity		
Javanese	48.0%	
Chinese	21.3%	
Sundanese	9.0%	
Batak	6.8%	
Padang	6.8%	
Other	8.1%	
5. Highest Education		
Under-graduate	91.4%	
Masters graduate	7.2%	
Other	1.4%	

6. Have foreign experience (work/education)		
Yes		
No	16.3%	
	83.7%	

Table – 4: Respondents’ profiles - Personal Information

5.1.2 Information about respondents’ jobs

In terms of employment, majority of respondents (93.7%) work as employees and 84.2% of them work in private-owned profit making firms. In terms of positions, majority of respondents have managerial positions (56.1%) with majority of them having job tenure of more than 1 year. Thus, respondents are qualified in terms of work experience as well as job positions.

Description	Percentage
1. Employment	
Self-employed	6.3%
Work as employee	93.7%
2. Kinds of organization	
Private, profit making firms	84.2%
State-owned Enterprise	14.9%
Private, non-profit making	.5%
Indonesian Government Agency	.5%
3. Tenure	
0-1 year	10.4%
1-10 years	65.2%
11-20 years	16.3%
over 20 years	8.1%
4. Job category in the organisation	
Assistant Manager	14.9%
Manager	56.1%
Director	3.6%
Owner	3.2%
Other	22.2%

Table – 5: Respondents’ jobs

5.1.3 Firms’ profiles

In terms of profiles of firms in which respondents work, majority of them are engaged in services business (66.1%); and in terms of size, majority of the firms large firms having more than 1,000 employees (46.2%). Most of the firms in the sample are owned by Indonesian nationals (50.7%), while 32.4% of them are

owned partly by foreign investors. In terms of nationality of their senior managers, majority of them (79.6%) are Indonesian senior managers, consisting of Javanese (45.7%) and Chinese (32.4%) ethnic groups. Thus, in terms of respondents' firms' demography, the sample can be regarded as sufficient to represent the total population.

Description	Percentage
1. Firm's main activities	
Services	66.1%
Manufacturing	20.8%
Sales (ex-import)	9.5%
Other	3.6%
2. Firm's size (number of employees)	
1-100	24.0%
101-500	22.2%
501-1,000	7.7%
over 1,000	46.2%
3. Firm's main products/services	
oil and gas (incl. mining)	17.5%
banking and non-banking financial institutions	11.5%
hospitality businesses	0.9%
Education (incl. training firms)	2.3%
Telecommunication (satellite, devices)	17.5%
Food and Beverage	2.8%
Automotive	2.8%
Health and medical	6.5%
Chemical	0.9%
Plastic	0.9%
Metal	0.5%
Building and construction	8.8%
Books, printing (incl. news paper and magazine)	2.3%
Entertainment	0.5%
Other	24.4%
4. Firm's ownership	
Wholly Indonesian	50.7%
Partly foreign-owned	34.4%
Wholly foreign-owned	12.7%
Public firms	2.3%
5. Nationality of most Senior Officers/Managers	
Indonesian	79.6%
Japanese	2.3%
Chinese	2.3%
European	7.7%
American	5.0%
Other	3.2%
6. Ethnicities of most <u>Indonesian</u> managers	
Javanese	45.7%
Indonesian-Chinese	32.4%
Sundanese	3.2%
Other	18.6%

Table – 6: Firms' profiles

5.2 Research findings

This section contains research findings of the study, which is analysed using factor analysis (SPSS), based on research steps discussed in chapter 4. In order to find answers to research questions identified in chapter 2, two dependent variables have been selected to be analysed in the study: managerial values and business practices in different organisations. The independent variable is majority of ethnicities of senior managers in an organisation. And because this study is an attempt to study Chinese-managed organisations as compared to Javanese-managed organisations, more attention is given to managerial values and business practices of those organisations that have Chinese and Javanese senior managers as majority ethnic groups. However, before the analysis is attempted, we first analyse the background of respondents' ethnicities as well as the types of organisations in which they work for. This is attempted to provide us with a background on the current situations regarding Chinese employment which prevails in business environment in Indonesia.

This section is divided into four major sub-sections. The first discusses analysis on respondents' demographic profiles, which is analysed using cross tabulation of kinds of organisation in which respondents work (private vs. State-Owned Enterprises or government agencies) and respondent's ethnicities. The second section covers research findings on managerial values based on extracted factors; the third sub-section discusses research findings on business practices in different organisations, also based on extracted factors; and the fourth section analyses managerial perceptions on current business situations that prevails in Indonesia during the period when this study was carried out.

5.2.1 Demographic data of respondents (cross-tabulation)

This section discusses research findings on what kinds of organisation managers work for. The intention is to find out the distribution of managers in private and government offices in terms of their ethnicities. For that purpose, 2 sets of cross tabulation are carried out. The first one is cross tabulation on kinds of organisations (private-profit-making firms vs. SOEs) and respondents' ethnicities (table-7); while

the second tabulation is on kinds of organisations and ethnicities of respondents' senior managers (table-8).

ethnicity of respondent * kind of organisation Crosstabulation

Count		kind of organisation				Total
		Private, profit making	private, non-profit making	state enterprise (BUMN)	5.00	
ethnicity of respondent	Javanese	86		19	1	106
	Chinese	47				47
	Sundanese	17		3		20
	Batak	11		4		15
	Padang	8	1	6		15
	Other	17		1		18
Total		186	1	33	1	221

Table – 7: Cross-tabulation of kinds of organisation and respondents' ethnicities

Table-7 shows that none of the Chinese managers (respondents) in our sample work in State-owned Enterprises (SOEs) or Government Agency offices. All 47 of our Chinese respondents work in private-profit making firms, either work as self-employed or as employees in private national or multi-national firms.

Table-8 also shows that most Chinese senior managers work in private rather than public sectors. The sample shows that 62 of the 63 Chinese senior managers (98.4%) work in private-profit making firms; while only 1 person (1.6%) work in State-owned firm. On the other hand, within category of kinds of organisation, there are 63.6% Javanese senior managers who work in State-owned Enterprises (SOEs). Thus, Javanese senior managers are still dominating SOEs.

What do both data imply? Why do Chinese Indonesians tend to work in the private sector, not the public sector? Does the data imply that Chinese Indonesians are scared to work in the public sector because strong discrimination and resentment against Chinese Indonesians still prevail in the modern Indonesia? To get answers to those questions, further studies have to be carried out. However, several historical evidences can be used to explain it.

Ethnicity of Indonesian Senior Officers * Kind of Organisation Crosstabulation

			Kind of organisation			Total
			Private, profit making	state enterprise (BUMN)	5.00	
ethnicity of Indonesian senior officers	Javanese	Count	64	21	1	86
		% within ethnicity of Indonesian senior officers	74.4%	24.4%	1.2%	100.0%
		% within kind of organisation	40.5%	63.6%	100.0%	44.8%
		% of Total	33.3%	10.9%	.5%	44.8%
	Indonesian-Chinese	Count	62	1		63
		% within ethnicity of Indonesian senior officers	98.4%	1.6%		100.0%
		% within kind of organisation	39.2%	3.0%		32.8%
		% of Total	32.3%	.5%		32.8%
	Sundanese	Count	7	1		8
		% within ethnicity of Indonesian senior officers	87.5%	12.5%		100.0%
		% within kind of organisation	4.4%	3.0%		4.2%
		% of Total	3.6%	.5%		4.2%
	other	Count	25	10		35
		% within ethnicity of Indonesian senior officers	71.4%	28.6%		100.0%
		% within kind of organisation	15.8%	30.3%		18.2%
		% of Total	13.0%	5.2%		18.2%
Total		Count	158	33	1	192
		% within ethnicity of Indonesian senior officers	82.3%	17.2%	.5%	100.0%
		% within kind of organisation	100.0%	100.0%	100.0%	100.0%
		% of Total	82.3%	17.2%	.5%	100.0%

Table – 8: Cross-tabulation of kinds of organisation and ethnicities of respondents' senior managers

As have been discussed in earlier chapters, especially in chapter 3, Chinese in Indonesia have experienced continuous discriminatory practices since the Colonial Era, to prevent/stop them from controlling the national economy, and thus gaining more and more power. This practice was carried out even after Indonesians declared their independence in 1945. Some of the most important eras for Chinese alienation were carried out during the years of Soeharto's ruling. For example, in 1967, as soon as Indonesia cut off its diplomatic relations with China, the government imposed several regulations prohibiting Chinese to join-in the military, academia, and government services, forcing them to engage in business (Schwarz, 1994).

Another incident and probably the worst incident in the modern era of Indonesia, was the horrible and cruel incident of May 1998 where violent and brutal actions against Chinese Indonesians were carried out. During the incident many Chinese Indonesians suffered heavy financial losses due to riots and looting by the *pribumi*. Many also suffered physically as well as psychologically. All these incidents against Chinese Indonesians are still fresh in their mind and will probably stay for a number of years, making them reluctant to work in SOEs and other government offices where the majority of staffs (almost all) in those organisations are the *pribumi*.

When would the situation change? No one can ever be sure of the answer. Even though after the crisis, the Indonesian government has tried to change the situation, however, what have happened in the history of Chinese interactions in the country has created certain memory which cannot be changed instantly over nights.

Some argue that the situation would probably change when Chinese Indonesians finally 'feel at home' in Indonesia. The Indonesian *pribumi* should realise that many Chinese Indonesians, even though have Chinese physical appearances, are in fact having dilemma in their social identities (Suryadinata, 1997). This is especially true for Chinese *peranakan* whose families have lived in Indonesian for many

generations, do not speak Mandarin or other Chinese dialects, and do not practice Chinese traditional festivities and other rituals have considered Indonesia has their home country. Discrimination practices towards Chinese *peranakan* might just send them away to other neighbouring countries.

5.2.2 Managerial values (questionnaire parts III-IV).

Managerial values of different ethnic groups are analysed using factor analysis. Thus, the analysis is carried out according to approaches discussed in chapter four.

5.2.2.1 Determinant of Correlation Matrix

The first step in conducting factor analysis is to check the value of the determinant of the correlation matrix in order to find out whether one or some of the questions in the questionnaire should be eliminated. After several attempts, a better construct representing managerial values is decided. Since the value of the determinant of the correlation matrix is 7.994E-03 (.007994) (next page), which is greater than the necessary value of .00001, there is no need to consider eliminating more questions in the construct (Field, 2005).

5.2.2.2 Meyer-Olkin Measure of Sampling Adequacy

After the value or the determinant of the correlation matrix is checked, the next step is to find out whether the sample used in the study is adequate enough for conducting factor analysis. One way to do so is to check Kaiser-Meyer-Olkin (KMO) values according to criteria suggested by Hutcheson and Sofroniou 1999 (in Field, 2005).

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.873
Bartlett's Test of Sphericity	Approx. Chi-Square	1034.218
	df	105
	Sig.	.000

Determinant of correlation matrix 7.994E-03

The value of Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.873. This means, data are very adequate (great) for factor analysis. Another way to test the adequacy is to check Bartlett's Test of Sphericity which shows a figure of 0.000 ($p < 0.001$), thus, the sample is adequate enough to be analysed using factor analysis.

5.2.2.3 Eigenvalues and Scree Plot for factor extraction

As explained in chapter four, having known that the sample is adequate for factor analysis, factors are then extracted to support the interpretability of the factors. Simpler representation of common theme of each factor can be achieved by rotating the factors (table-11). These rotated factors are not only giving simpler structure, but also need to give common themes for better interpretation of each factor. After several attempts, four factors are extracted (table-9) in order to arrive at a better interpretation. Non-interpretable factors are not useful for the study, thus, eliminated. As a result, questions or variables in the questionnaires that are retained are classified into these four factors, each of which represents a common theme of variables in that factor. Thus, not only factors have to have Eigenvalues of greater than 1, but they also have to be meaningful constructs for the study.

We can see on table-9 below that there are four factors of managerial values that have the Initial Eigenvalues (total variance) of greater than 1. Thus, four factors can be extracted or used for further analysis. However, since Eigenvalues of the fourth factor is only a little higher than 1 (1.047), thus, the co-linearity of variables in this factor is not very strong and thus, theoretically, the fourth factor can be eliminated. However, since the variables in the fourth factor are considered as important to give better meanings and interpretations of the study, the factor is retained.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.221	34.806	34.806	5.221	34.806	34.806	2.892	19.283	19.283
2	1.351	9.009	43.815	1.351	9.009	43.815	2.298	15.320	34.603
3	1.207	8.047	51.862	1.207	8.047	51.862	2.196	14.641	49.244
4	1.047	6.981	58.842	1.047	6.981	58.842	1.440	9.599	58.842
5	.911	6.073	64.915						
6	.820	5.466	70.381						
7	.720	4.798	75.179						
8	.621	4.141	79.320						
9	.600	4.003	83.323						
10	.538	3.590	86.913						
11	.483	3.223	90.136						
12	.458	3.054	93.190						
13	.403	2.686	95.876						
14	.360	2.401	98.277						
15	.258	1.723	100.000						

Extraction Method: Principal Component Analysis.

Table – 9: Initial Eigenvalues (total variance) for Managerial values

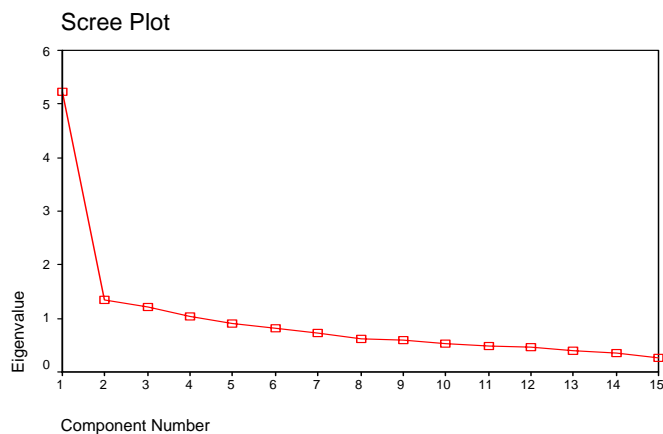


Table – 10: A Scree Plot for Managerial values

A Scree-Plot Test above (table-10) shows the rate of change diagram tends to decline fast for the first two factors, declines slowly in level 3 and four,

and then starts to level off in factor 5. Thus, it is appropriate to extract 4 factors in managerial values to be further analysed.

5.2.2.4 Rotated component matrix (table-11 on page 84)

The four extracted factors are rotated in order to give a simpler structure and to arrive at more meaningful and interpretable factors. Varimax rotation method with Kaiser Normalisation is used in this study and only factor loadings that have values of greater than 0.40 are considered as significant. Thus, all variables with factor loadings less than 0.40 have been eliminated.

The rotated component matrix shows that there are two figures in variables ‘opportunity for high earning’s and ‘opportunity for promotion.’ However, since those two variables have higher factor loadings in the second factor (0.636 and 0.575) compared to loadings in the first factor (0.420 and 0.408), they are excluded from the first factor and thus, included as variables of the second factor. The four factors are given labels in the following as representation of theme in each factor.

5.2.2.5 Names/labels of each factor

The first factor is labelled as **Working Environment**. It consists of five variables as follows: ‘It is important to work in an organisation

- a. that has supportive cooperative colleagues and staffs
- b. that has well-defined job situation and clear expectations
- c. that promotes good working relationship with direct superiors
- d. appreciates differences of, even conflicting opinions
- e. that gives sufficient time for my personal/family life

This factor is labelled as **Working Environment** in order to check how significantly different/similar among different groups of senior managers in these five variables. As has been discussed in chapter 3 that Chinese as well

as Javanese societies consider good relationship as very important in achieving social harmony. The ideal human virtues include obedience to superiors (*manut*), generosity, avoidance of conflict, understanding of others, and empathy (Geertz 1961; Koentjaraningrat 1985; Suseno, 1997). In this case, since the unit of analysis is an organisation, the harmonious relationship is exhibited in the supportive, cooperative and good working relationship in an organisation, including relationship with superiors.

The second factor, labelled as **Social Order and Harmony**, consists of three variables:

- a. Maintaining social order and harmony is important, even though we sometimes disagree with other people's opinion.
- b. It is important to have good interactions and relationship among organisational members and external stakeholders (including the community).
- c. It is important for employees to have opinion about work-related decisions

These three variables are grouped together as a factor to check managerial values and preferences regarding social order and harmony. As previously explained, both Chinese as well as Javanese society regard social harmony as important for an ordered society. For example, in Javanese society, social harmony is shown in one of the four principles of life, which is *rukun* (harmony). Rukun is also accompanied by the second principle of life - *hormat* (respect), which is also intended to bring social order.

Rotated Component Matrix – Managerial values

	Com	po	nent	
	1	2	3	4
It is important to work in an organisation that has supportive and cooperative colleagues & staffs	.798			
It is important to work in an organisation that has well-defined job situations & clear expectations	.781			
It is important to work in organisation that promotes good working relationship with direct superiors	.766			
It is important to work in an organisation that appreciates differences of, even conflicting opinions	.452			
It is important to work in organisation that gives me sufficient time for personal/family live	.420			
Maintaining social order and harmony is important, even though we (sometimes) disagree with other people's opinion		.784		
It is important to maintain good interactions & relationship between organisational members and external stakeholders (including social community)		.747		
It is important for employees to have their opinion about important work-related decisions		.734		
It is important to work in an organisation that is large, well-known, prestigious			.811	
It is important to work in an organisation that provides employment security (including retirement plan and benefits)			.668	
It is important to work in an organisation that provides opportunities for high earnings	.420		.636	
It is important to work in an organisation that provides opportunities for promotion	.408		.575	
It is important for an organisation to have clear goals and objectives that are flexible. They can be changed whenever necessary				.831
Organisational routines & standards are important, however should be improved whenever necessary				.764

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.
 A Rotation converged in 6 iterations.

Table – 11: Rotated component matrix for Managerial Values

The third factor, labelled as **Prestige and Security**, consists of four variables:

- a. It is important to work in an organisation that is large, well-known and prestigious
- b. It is important to work in an organisation that provides employment security (including retirement plan and benefits)
- c. It is important to work in an organisation that provides opportunities for high earnings
- d. It is important to work in an organisation that provides opportunity for promotion

As discussed in chapter 3, Chinese and Javanese societies share a great number of similarities in their values as a result of Confucianism influence. However, in the similarities, they also have differences. The most obvious difference is their understanding of ‘relationship’ in non-kinship relations. For example, similar to Chinese, Javanese society also puts great value in social harmony. While social harmony in Chinese society is established and maintained according to reciprocal behaviours on the basis of mutual benefits in ‘*wulun*’; However, social harmony in Javanese society is established and maintained by exhibiting proper conduct of behaviours, physical gestures as well as of using the correct language levels based on *hormat* (respect), *rukun* (harmony), *nrimo* (acceptance) and avoidance of conflicts. Such values, even though is more prevalent among the *priyayis*, is generally practice in Javanese society.

Moreover, relationship in Chinese society personal; while relationship in Javanese society is hierarchical (feudal/charismatic) resulting in formal communication. Besides, the understanding of ‘family’ in Chinese society can also be extended to non-kinship relationship; the case is different in Javanese society. Kinship relationship in Javanese society is only strong in a nuclear family. Relationship with kinsmen other than the nuclear family is

limited. Unlike in Chinese society where family members (kin or non-kin) are obligated to help each other based on ‘*wulun*’; Javanese society are not obligated to help non-nuclear family. Only more well-to-do family members are expected (not obligated) to help the more needy relatives.

We can see that Javanese society is very hierarchical. Every aspect of life is arranged according to one’s social status, each of which has its own social norms and etiquette, including its own levels of language. In other words, social institution in Javanese society is based on less durable social status, rather than durable *guanxi*-based relationship intensity. Therefore, it is important for Javanese to try their best to maintain their prestige and social status (or possibly reach higher status) to stay in a particular social institution.

The fourth factor, labelled as **Flexibility**, consists of two variables:

- a. It is important for an organisation to have important to have clear goals and objectives that are flexible. They can be changed whenever necessary
- b. Organisational routines and standards are important, however should be improved whenever necessary

This factor is labelled as ‘Flexibility’ to find out how flexible Chinese and Javanese senior managers are. Even though there are differences in the understanding of ‘relationship’ in both societies (as has been discussed in the previous section); however, both societies highly value ‘relationship’ in order to create social harmony of an ordered society. As a result, all attempts will be focused on the creation and maintenance of the harmonious environment. In Chinese society, it is important maintain the personal relationship that is based on trust, respect and mutual benefits to stay in a *guanxi*-network in order to be able to give/receive supports among members. On the other hand, in Javanese society, it is important to maintain

relationship with people of certain social status, positions and power to be included in that ‘prestigious’ society.

In their attempt to maintain harmonious relationships, Chinese and Javanese managers are more flexible in their decisions to make sure all related agents are happy. One of this flexible behaviour is shown in organisational goals; routines and standards of performance.

5.2.2.6 Internal Consistency Reliability test

Reliability test using SPSS is run to check factorial reliability and validity.

Factors	No. of items	Means	Alpha
1. Working Environment	5	4.5285	0.7922
2. Social Order and Harmony	3	4.4148	0.7163
3. Prestige and Security	4	4.4819	0.7309
4. Flexibility	2	4.5520	0.5255

Table-12: Alpha scores - Internal consistency reliability test for Managerial Values

Reliability tests show that except for factor 4, the first 3 factors have Cronbach’s alpha coefficient of more than 0.7 (Santos, 1999; Statsoft, 2003). This means that the items or variables in factors 1 to 3 are positively correlated with each other, thus, are considered as consistent or reliable to be classified as a factor. The low alpha coefficient of factor four may be caused by the fact that it has only two variables, thus too few items or variables constructed in the factor. However, as explained previously, since these variables are considered as important to give better meanings of the study, they are retained as a factor.

5.2.2.7 Analysis of Variance (ANOVA)

In an attempt to find out whether there are significant differences among different groups of senior managers in terms of their managerial values,

each variable in each of the four factors is analysed using analysis of variance (ANOVA). In the case there are significant differences further analysis using Interdependent T Test is carried out to check which groups have significant differences in their managerial values.

a. ANOVA for first factor - ‘Working Environment’

Factor: Working Environment	Sig.
‘It is important to work in an organisation that’	
has supportive and cooperative colleagues & staffs	.261
promotes good working relationship with direct superiors	.195
has well-defined job situations & clear expectations	.180
appreciates differences of, even conflicting opinions	.414
gives sufficient time for personal/family live	.204

Table – 13: ANOVA for first factor - ‘Working Environment’

ANOVA at 95% confidence level shows there are no statistical significant differences among mean values of different organisations based on their majority of senior managers’ ethnic groups. All managers consider all variables as important. Table-14 below shows that the average mean values for all variables are high. They range from 4.3665 to 4.6199 in 1-5 Likert Scale.

Descriptive Statistics

‘It is important to work in an organisation that’	N	Mean
has supportive and cooperative colleagues & staffs	221	4.6199
promotes good working relationship with direct superiors	221	4.5882
has well-defined job situations & clear expectations	221	4.5475
appreciates differences of, even conflicting opinions	221	4.5204
gives me sufficient time for personal/family live	221	4.3665

Table – 14: Average mean values for all variables in the first factor - ‘Working Environment’

b. ANOVA for second factor - 'Social Order and Harmony'

Factor: Social Order and Harmony	Sig.
It is important for employees to have their opinion about important work-related decisions	.615
It is important to maintain good interactions & relationship between organisational members and external stakeholders (including social community)	.479
Maintaining social order and harmony is important, even though we (sometimes) disagree with other people's opinion	.427

Table – 15: ANOVA for second factor - 'Social Order and Harmony'

ANOVA (at 95% confidence level) of each variable in the factor 'Social Order and Harmony' also shows there is no statistical significant difference in the means. All variables have significant levels of more than 0.05. This means that senior managers of different ethnicities are indifferent in their values of social order and harmony. Like the first factor, senior managers of Chinese and Javanese ethnic groups consider all variables as important. The average mean values of all variables range from 4.2624 to 4.5158 (table-16 below).

Descriptive Statistics

	N	Mean
It is important for employees to have their opinion about important work-related decisions	221	4.5158
It is important to maintain good interactions & relationship between organisational members and external stakeholders (including social community)	221	4.4661
Maintaining social order and harmony is important, even though we (sometimes) disagree with other people's opinion	221	4.2624

Table – 16: Average mean values for all variables in the second factor - 'Social order and Harmony'

c. ANOVA for third factor - 'Prestige and Security'

Factor: Prestige and Security	Sig.
'It is important to work in an organisation that	
that provides employment security (including retirement plan and benefits)	.094
that is large, well-known, prestigious	.001
that provides opportunities for high earnings	.329
that provides opportunities for promotion	.580

Table – 17: ANOVA for third factor - 'Prestige and Security'

ANOVA with 95% confidence level shows that statistically, there is a significant difference of means of the second variable (0.001) - 'It is important to work in an organisation that is large, well-known and prestigious.' Because the difference is statistically significant, further investigation is carried out. In order to find out which groups have the significant mean differences, we conduct an Independent T-test among all groups. Out of the four groups, when group 1 (Javanese managers) is compared to group 2 (Indonesian-Chinese managers), these two groups show significant differences in the mean value as shown in table-18 below.

Group Statistics

	ethnicity of Indonesian senior officers	N	Mean
It is important to work in an organisation that is large, well-known, prestigious	Javanese	86	4.3488
	Indonesian-Chinese	63	3.8254

Table – 18: Means differences btw. Javanese vs. Indonesian Chinese managers for variable 2 in factor 'Prestige and Security'

While the mean value of Javanese manager is 4.3488, the mean value for Chinese manager is 3.8254. The 2-tailed significant level is 0.00 at 95% confidence level (table-19).

		Sig. (2-tailed)	Mean Diff.
It is important to work in an organisation that is large, well-known, prestigious	Equal variances assumed	.000	.5234
	Equal variances not assumed	.000	.5234

Table – 19: Independent T-test btw. Javanese and Indonesian-Chinese managers for variable 2 in factor ‘Prestige and Security’

This means that statistically, there is a statistical significant difference in the means of managerial values between Javanese managers and Indonesian-Chinese managers in their preferences for what kinds of organisation they want to work for. Thus, compared to Chinese senior managers, Javanese senior managers consider it more important to work in large, well-known and prestigious organisations. The data is in line with Javanese social cultural values where relationships are established and maintained based on someone’s social strata and their social interactions are based on fief-type of social institution, which is characterised by several factors, for example, face-to-face personal and hierarchical (feudal/charismatic) relationships, submission to super-ordinate goals, and hierarchical coordination. Thus, only people of similar social status are accepted and treated as ‘friends.’ Therefore, it is important for Javanese to try to reach high and prestigious positions in order to be accepted in a high class society.

Compared to Javanese, Chinese Indonesians who have experienced continuous discrimination also tend to manage the social environment by engaging in personal relationship. However, whilst Javanese tend to engage in personal and hierarchical (feudal and charismatic) relationship which is usually not durable; Chinese tend to engage in trust-based personal *guanxi*-based relationships with a number of other organisms, including government officials, as long as they have the institutional influence to handle external complexity. This kind of

relationship not only provides Chinese Indonesians with a more durable and stable relationship, but also with mechanisms to share information, resources and risk, as well as with capability enhancement to deal with a wider range of environmental contingencies.

ANOVA also shows significant level of the first variable 'It is important to work in an organisation that provides employment security (including a retirement plan and benefits)' is 0.094. Even though statistically that level cannot be considered as significantly different, however, can be considered as quite different and may be used to explain something, thus further analysis is attempted. Independent T-test shows that the mean values for Javanese managers are 4.7326 while the mean values for Chinese managers are 4.5238. This data shows it is more important for Javanese than Chinese senior managers to work in organisation that provides employment security (including retirement plan and benefits) (table-20).

Employment security is grouped together with 'Prestige,' because it is an important element to provide sense of 'self-esteem' and stability and to open up opportunity to reach higher positions in organisations. In other words, it is regarded as a motivator (Maslow, 1970). According to Maslow (1970), there are two types of esteem needs. First is self-esteem which results from competence or mastery of a task. Second, attention and recognition that comes from others. This is similar to the belongingness level; however, wanting admiration has to do with the need for power. In this case, employment security can be regarded as both types of self-esteem. As the first type, senior managers enjoy employment security because they have the necessary competence to maintain their positions. As the second type, being able to maintain certain high positions (as senior managers), they are in the position to receive attention as well as recognition, either in the internal/external organisational environments, or in the family.

High ranking officials are regarded as bringing pride and ‘power,’ to all family members. Only by maintaining high social status, can these senior managers be accepted in the ‘high-class’ society.

Descriptives

		N	Mean
It is important to work in an organisation that provides employment security (including retirement plan and benefits)	Javanese	86	4.7326
	Indonesian-Chinese	63	4.5238

Table – 20: Means differences btw. Javanese and Indonesian-Chinese managers for variable 1 in the third factor ‘Prestige and Security.’

d. ANOVA for fourth factor - ‘Flexibility’

Factor: Flexibility	Sig.
Organisational routines & standards are important, however should be improved whenever necessary	.692
It is important for an organisation to have clear goals and objectives that are flexible. they can be changed whenever necessary	.682

Table – 21: ANOVA for fourth factor - ‘Flexibility’

In the third factor, ANOVA (95% confidence level) shows there is no significant difference in the means of each variable in factor ‘Flexible,’ suggesting Chinese and Javanese senior managers regard ‘flexibility’ as important.

5.2.3 Business Practices (questionnaire part VI).

Similar to the previous section on analysis of Managerial values, the same approaches of analysis are also employed in analysing business practices of senior managers of different ethnic groups.

5.2.3.1 Kaiser-Meyer-Olkin Measure of Sampling Adequacy

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.832
Bartlett's Test of Sphericity	Approx. Chi-Square	659.168
	df	91
	Sig.	.000

Kaiser-Meyer-Olkin Measure of Sampling Adequacy is checked to find out whether sample is adequate for factor analysis. KMO and Bartlett's test shows that the value of KMO is 0.832. This means, data are considered 'good' and adequate for factor analysis (Hutcheson and Sofroniou, 1999 in Field, 2005). Bartlett's Test of Sphericity is also highly significant ($p < 0.001$), thus, sample is adequate for factor analysis.

5.2.3.2 Eigenvalues and Scree Plot

Having known that the sample is adequate for factor analysis, factors are then extracted to give meaningful interpretation. Similar to variables in managerial values, variables in business practices are also divided into several factors based on common theme that is represented by each factor. Simpler representation of common theme of each factor can be achieved by rotating the factors (table-24). These rotated factors are not only giving simpler structure, but also need to show common themes for better interpretation of each factor. After several attempts, there are three factors that have Eigenvalues of greater than 1 (table-22) below, thus, theoretically the variables can be divided into three factors.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.969	28.352	28.352	3.969	28.352	28.352	3.804	27.172	27.172
2	1.654	11.817	40.169	1.654	11.817	40.169	1.501	10.723	37.894
3	1.135	8.110	48.280	1.135	8.110	48.280	1.454	10.386	48.280
4	.977	6.980	55.260						
5	.913	6.521	61.781						
6	.848	6.058	67.839						
7	.771	5.507	73.346						
8	.707	5.051	78.397						
9	.648	4.626	83.023						
10	.626	4.468	87.491						
11	.502	3.583	91.074						
12	.454	3.245	94.319						
13	.444	3.170	97.488						
14	.352	2.512	100.000						

Extraction Method: Principal Component Analysis.

Table – 22: Initial Eigenvalues (total variance) for Business Practices

A Scree plot test (table-23) also shows that the rate of decline tends to be fast for the first two factors, declines slowly to the third factor, and then starts to level off after the third factor. Thus, it is acceptable to extract three factors.

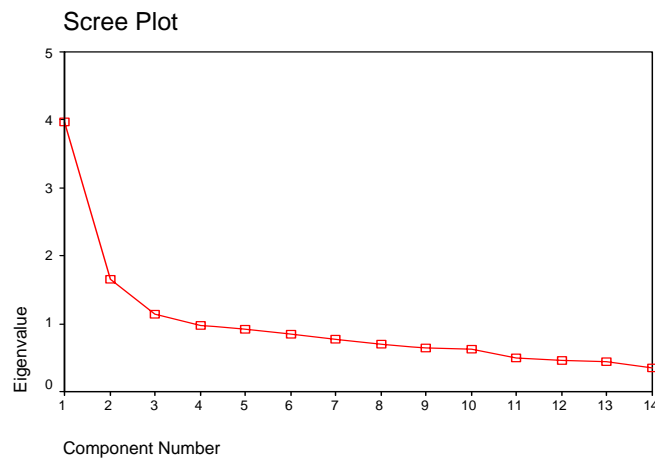


Table – 23: A Scree Plot for Business Practices

5.2.3.3 Rotated component matrix (table-24, page 99)

As mentioned previously, the three extracted factors are rotated in order to give a simpler structure and to arrive at more meaningful and interpretable factors. Varimax rotation method with Kaiser Normalisation is used in this study and only factor loadings that have values of greater than 0.40 are considered as significant. Thus, all variables with factor loadings less than 0.40 have been eliminated.

We can see on the rotated matrix that variables in factor three can actually be merged into factor two since they represent similar themes. Besides, since the Eigenvalues of the third factor is only 1.135, which is slightly higher than 1, the co-linearity of variables within this factor is not very strong and thus, theoretically, can be eliminated.

For those reasons, only two factors will be used to analyse business practices in different organisations based on ethnicities of senior managers. The two factors are labelled as the following as representation of the theme of each factor.

5.2.3.4 Names/labels of each factor

The first factor is labelled as '**Codified Rules and Regulations**'. It consists of eight variables as follows: 'My firm

- a. has a set of complete standard operating procedures, routines and norms
- b. has organisational chart to describe management structure
- c. conducts regular performance assessments to key employees
- d. has well-defined job descriptions with clear expectations
- e. maintains formal organisational long-term plans
- f. managers are largely involved in preparing plans
- g. has retirement plan and benefits for all employees
- h. conducts market research (formal and informal)

The factor is labelled 'Codified Rules and Regulations' for the following reasons. In chapter 2, it has been discussed that a complex environment can be managed either by increasing information codification/abstract to allow higher diffusion; or by reducing information codification/abstract to allow intensive relationships among sizable number of interacting agents (Boisot and Child, 1999). Thus, in some cases a complex environment is managed by either increasing information codification or by reducing it. This analysis is an attempt to check whether business practices in Indonesia depend on highly codified information, and thus, low personal face-to-face relationship or they depend on low codified information and high personal face-to-face relationship.

It is identified that Chinese and Javanese tend to manage a complex environment by engaging in personal relationships which are arranged according to clan and fief social institutions' cultural characteristics respectively. Thus, Chinese and Javanese tend to manage the overall complexity by maintaining low level of information codification.

The second factor is labelled as '**Personal Relationships**,' and it consists of six variables:

- a. New employees are recruited and selected based on personal relationships/ referrals
- b. My firm relies on personal relationships when deciding on suppliers rather than on open bidding.
- c. In a meeting, normally decisions are not made straight away, but consulted further
- d. Face-to-face communication and personal approaches are more effective than electronic or written communication
- e. Conflicts are largely resolved by collaborating rather than competing
- f. My firm maintains good personal relationships with customers

The factor is labelled “Personal Relationship” due to the following reasons. As has been discussed in chapter 3, both Chinese and Javanese tend to manage a complex environment by engaging in intensive-personal and face-to-face relationship with a limited number of selective agents (Boisot and Child, 1999); even though personal relationship in Chinese society is more durable than that of the Javanese.

This is because both societies are influenced by Confucianism, which treats organisms (living as well as non-living) as autonomous, self-regulated but at the same time interconnected beings. In other words, while having autonomy, individuals as agents are also constrained by social norms, traditions, and regulations which are practiced in societies (fields) in which agents are embedded. Thus, individuals from different social cultural backgrounds (fields) have different ways of interacting as well as processing and interpreting information, depending on their social institutions. As a result, information means different things to different individuals, especially if they come from different social cultural backgrounds, thus social interactions are complex.

However, personal relationship in the complex social interactions provides agents with several advantages. For example, communication among friends or ‘familiar’ people is more informal and thus, can be more effective because agents know each other it is. Interactions among friends, which are mostly face-to-face communication is also faster and more efficient. And while communicating, all agents share and create new knowledge as well (e.g. Nonaka et al., 2000). Moreover, engagement in personal-face-to-face relationships by loosely-coupled cooperation with various agents also provides agents with a wider range of environment contingencies, which in turn creates behavioural plasticity/flexibility and a mechanism to share risk (Boisot and Child, 1999). Thus, in other words,

they manage the complex environment by absorbing the complexity in personal relationships.

Complexity absorption is also shown in business practices, including in the hiring new employees; selecting customers, suppliers and other related agents. Beside face-to-face interaction, personal relationship is also maintained by avoiding conflicts and making careful organisational decisions to make sure no related agents are offended or negatively impacted by such decisions.

Rotated Component Matrix

	Component		
	1	2	3
Has standard operating procedures, routines and norms	.786		
Has organisational chart for management structure	.727		
Has regular formal performance assessments to key employees	.683		
Has well-defined job description with clear expectation	.675		
Maintain formal organisational long-term plans	.670		
Managers are largely involved in preparing plans	.586		
Has retirement plan and benefits for all employees	.575		
Has market research	.572		
Recruitment and selections are based on personal relationship		.754	
Suppliers are based on personal relationship rather than open bidding		.646	
Decisions are consulted further		.613	
Face-to-face communication and personal approach: more effective			.770
Conflicts are resolved based on collaboration rather than competing			.720
Maintains good relationship with customers			.466

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

A Rotation converged in 5 iterations.

Table – 24: Rotated component matrix for business cultures and management practices

As has been discussed above, the rotated component matrix shows that variables in factor three have similar theme to those of factor 2, thus, business practices are divided into two factors only.

5.2.3.5 Internal Consistency Reliability test

Reliability test is run using SPSS to check factorial reliability and validity. The coefficient reliability (Cronbach's alpha coefficient) indicates how well the variables in a factor are positively correlated with each other in measuring the concept intended; and the conventional requirement is a minimum value of 0.7 (Santos, 1999; Statsoft, 2003). However, high alpha value is difficult to obtain with few items.

Factors	No. of items	Means	Alpha
Codified Rules and Regulations	8	3.9318	0.8254
Personal Relationships	6	4.4314	0.4565

Table – 25: Alpha scores - Internal consistency reliability test for Business Practices

Reliability/consistency tests show that the first factor has Cronbach's alpha coefficient more than 0.7. This means that the items/variables in this factor are positively correlated with each other. However, the second factor only has alpha coefficient of 0.4565. Since Cronbach's alpha measures how well/reliable/consistent a set of items (variables) measures a single uni-dimensional latent construct, the low coefficient shows that the data in the second factor probably have a multidimensional structure, or in other words, the questions in this factor have might have two possible answers and/or multi-point formatted or scales (i.e., rating scale: 1 = poor, 5 = excellent). The higher the score, the more reliable the generated scale is. Even though Nunnally (1978) has indicated that 0.7 is an acceptable reliability coefficient, lower thresholds are sometimes used in the literature (Nunnally, 1978 in Santos, 1999; Statsoft, 2003).

5.2.3.6 ANOVA (Analysis of Variance)

a. ANOVA for first factor – ‘Codified Rules and Regulations’

Factor: Codified Rules and Regulations	Sig.
has standard operating procedures, routines and norms	.163
has organisational chart for management structure	.209
has regular formal performance assessments to key employees	.066
has well-defined job description with clear expectation	.138
maintain formal organisational long-term plans	.370
managers are largely involved in preparing plans	.564
has retirement plan and benefits for all employees	.035
has market research	.436

Table – 26: ANOVA for first factor – ‘Codified Rules and Regulations’

ANOVA (at 95% confidence level) shows that statistically, variable 7 (‘My firm has retirement plan and benefits for all employees’) shows that there is a significant difference between groups of senior managers (significant level 0.035). To investigate which groups are significantly different, we check Dunnett C’s multiple comparisons (table-27 below).

			Mean Difference (I-J)
Dependent Variable	(I) ethnicity of Indonesian senior officers	(J) ethnicity of Indonesian senior officers	
has retirement plan and benefits for all employees	Javanese	Chinese	.4348
		Sundanese	-.1802
		Other	-.1874
	Chinese	Javanese	-.4348
		Sundanese	-.6151
		Other	-.6222 *

* The mean difference is significant at .05 level.

Table – 27: Dunnett’s C Multiple Comparisons of Means

Dunnett’s C multiple means comparison shows that there are significant differences in the means value of Chinese managers and managers of ‘other’ ethnicities. They are different by 0.6222, which means that compared to managers of ‘other’ ethnicity, Chinese managers consider this variable as not that important. There is no significant difference in

means between Chinese and Javanese senior managers. However, for the purpose of this study, means values of Chinese managers and Javanese managers are also compared. Statistical data shows that Javanese managers regard 'retirement plan and benefits' as more important than Chinese managers. The means value for Javanese managers are 4.0698, while the means value for Chinese managers are 3.6349 (table-28).

This data also supports previous findings (part 5.2.2.7) that it is more important for Javanese managers to work in an organisation that provides 'employment security' (including retirement plan and benefits), one of the variables in factor 'Prestige' (page 90). As discussed, retirement plan as part of variable 'employment security' is necessary as a motivator for self-esteem which results from competence or mastery of a task; as well as a motivator for self-esteem for attention and recognition from others (Maslow, 1970).

Both data above (comparison of means values of Chinese managers and managers of 'other' ethnicity, as well as comparison with Javanese managers) show that Chinese manager do not regard variable 'retirement plan and benefits' as important. This might be due to the fact that Chinese values of life is very much influenced by Confucian teachings which treat organisms (living and non-living) as autonomous and interconnected with each other, thus complex and unpredictable. The future is not possible to be predicted with high accuracy. For Chinese, the future depends on practices of interacting agents in a dynamic environment, thus, experienced based and situational. For these reasons, Chinese tend to depend highly on maintaining durable *guanxi* relationship as secured resource should they seek help in the future, rather than to depend on employment security or prestige. By

having close relationships with ‘family,’ Chinese depend on each other for reciprocal supports.

Group Statistics

	Ethnicity of Indonesian senior officers	N	Mean
My firm has retirement plan and benefits for all employees	Javanese	86	4.0698
	Chinese	63	3.6349

Table-28: Mean Values for variable 8 of Javanese and Chinese senior managers

Overall, Analysis of variance shows that there are no significant statistical differences in the mean values of Chinese managers compared to Javanese managers in factor ‘Codified Rules and Regulations.’ Both managers consider all variables in this factor as important. This is shown in the average mean values of each variable as shown on table-29 below. All variables have considerable high average of mean values; they all have values above 3 in 1-5 Likert Scale.

Group Statistics

	Factor: Codified Rules and Regulations	Ethnicity	N	Mean
1	My firm has an organisational chart to describe management structure	Javanese	86	4.0116
		Chinese	63	4.0635
2	My firm conducts a market research (formal or informal)	Javanese	86	3.7442
		Chinese	63	3.5556
3	My firm has descriptive and well-defined job descriptions with clear expectations	Javanese	86	3.7209
		Chinese	63	3.6349
4	My firm has a set of complete standard operating procedures, routines and norms	Javanese	85	4.1059
		Chinese	61	4.0984
5	My firm maintains a set of formal Long term work plans	Javanese	86	3.8488
		Chinese	63	3.7937
6	In a meeting, normally decisions are not made straight away, but consulted further	Javanese	86	3.2558
		Chinese	63	3.2698
7	When preparing organisational plans, all managers are largely involved	Javanese	86	4.0465
		Chinese	63	3.9365
8	My firm has retirement plan and benefits for	Javanese	86	4.0698

	all employees			
		Chinese	63	3.6349

Table-29: Mean Values for all variables between Javanese and Chinese senior managers

One possible explanation in high information codification deals with organisation size, thus cross-tabulation is carried out on organisations' size (in terms of total number of employees) and ethnicity of senior managers (Chinese and Javanese) (table-30).

		Ethnicity of Indonesian senior officers		Total
		Chinese	Javanese	
# of employees	1-100	19	22	46
	101-500	13	14	40
	501-1000	4	5	13
	over 1000 employees	27	45	93
Total		63	86	192

Table-30: Cross-tabulation: Number of employees and Ethnicity of Indonesian senior officers (Chinese and Javanese senior managers)

Table-30 shows that most of Chinese and Javanese senior manager works in large firms (having more than 1,000 employees). This is consistent with organisational size as one of contingent factors in deciding which strategy to be employed in dealing with a complex environment. It has been discussed in chapter 2 (page11), the bigger an organisation is, the higher is the need for information codification because it allows firms to achieve higher efficiency in organisational processes. And in many cases, as firms grow, they cannot escape from the dilemma of shifting to bureaucracy or market institution (Aldrich 1979; Boisot, 1995; Boisot and Child, 1999). As firms turn into bureaucracy or market institution, there is also a tendency for firms to pay more attention to organisational process rather than performance.

b. ANOVA for second factor – ‘Personal relationships’

Factor: Personal relationships	Sig.
New employees are recruited and selected based on personal relationships/referrals	.067
My firm relies on personal relationships when deciding on suppliers rather than open bidding	.493
In a meeting, normally decisions are not made straight away, but consulted further	.562
Face-to-face communication and personal approach are more effective than electronic or written communication	.011
In my firm, conflicts are largely resolved by collaborating rather than competing	.803
My firm maintains good personal relationship with customers	.799

Table – 31: Significant levels of means between groups

ANOVA (95% confidence level) shows that statistically, there is a significant difference (0.011) in the means of variable 4 - ‘Face-to-face communication and personal approach are more effective than electronic or written communication.’

In order to check which groups have significant means, Dunnett’s C test is analysed below.

Dependent Variable	ethnicity	ethnicity	Mean Diff	
Face-to-face communication and personal approach are more effective than electronic or written communication	Javanese	Chinese	-.0349	
		Sundanese	-.1599	
		Other	.5651	
		Chinese	Javanese	.0349
		Sundanese	-.1250	
		Other	.6000	
		Sundanese	Javanese	.1599
		Chinese	.1250	
		Other	.7250	
			*	

Table – 32: Dunnett’s C Test of Multiple Means Comparison

* The mean difference is significant at .05 level.

Table-32 shows that statistically, there is a significant difference in the means of Sundanese managers and managers of ‘other’ ethnicity. There

is no significant difference between Chinese and Javanese managers in this variable. However, both managers have high means values for this variable. The mean value for Javanese managers is 3.9651, while the mean value for Chinese managers is 4.000. Thus, the data shows that both Chinese and Javanese managers consider ‘face-to-face communication’ as important (table-33).

Descriptives			
		N	Mean
Face-to-face communication and personal approach are more effective than electronic or written communication	Javanese	86	3.9651
	Chinese	63	4.0000
	Sundanese	8	4.1250
	Other	35	3.4000

Table–33: Means Comparison of variable 4 in Factor ‘Personal Relationship’

5.2.4 Managerial perceptions on the state of conduciveness on current business situation in Indonesia (questionnaire parts VII).

As discussed in the beginning of chapter 5, demographic profiles of respondents show that all 47 of Chinese respondents in the study sample are either self-employed or work in private sectors (national or multinational firms). None of them work in the public sectors, i.e. State-owned Enterprises or government offices. Possible explanation has been discussed in section 5.2.1. To check how managers perceive the current business situations in Indonesia, questions in part VII of the questionnaire can be used to see whether there are differences in managers’ perception on the state of conduciveness on current business situation.’ For this purpose mean values of different organisations are compared based respondents’ ethnicities (table-34 below).

	N	Mean
Javanese	86	3.4302
Chinese Indonesians	63	3.1587
Sundanese	8	3.5000

Table–34: Means Comparison of managerial perceptions on the state of conduciveness on current business situation in Indonesia

Statistical data shows that among the three groups of respondents' ethnicities, the means values show that Chinese Indonesian managers' perceptions on the conduciveness of the current business situations in Indonesia has the lowest mean value (3.1587); while the mean values for Javanese managers is 3.4302 and the mean values for Sundanese managers is 3.500. It means that Chinese Indonesian managers consider the general business situations are still not very conducive. This is probably because Chinese Indonesians still feel scared and insecure in Indonesia even though the new Indonesian government has tried to change the situation to make Chinese feel secure and thus consider Indonesia as their 'home.'

5.3 Chapter Summary

Based on Boisot and Child's idea (1999) of social institutions as products of agents' social cultural values is used to explain why managers of different social cultural values and historical trajectory developments have different strategies in dealing with a violent environment, which are reflected in their managerial values and business practices. Based on these scholars idea, we identify that whilst Chinese tend to engage in a clan/network type of social institution, Javanese tend to engage in a fief type of social institution, each of which has its own cultural characteristics. Cultural characteristics of these two social institutions are used to analyse constructs of observable variables using factor analysis in SPSS (Statistical Package for the Social Sciences) to help us discover the main constructs or important value dimensions by simplifying complex sets of observable variables into several factors. Thus, factor analysis helps us assess the construct validity of a factor in terms of managerial values, as well as business practices. After several attempts, in order to arrive at more meaningful and interpretable data, we divide managerial values into four factors: 'Working Environment; Social Order and Harmony; Prestige and Security and Flexibility; and business practices into two factors: 'Codified Rules and Regulations' and 'Personal Relationship.' Hopefully these constructs may be used for future research to build dimensionality of business cultures and management practices in different contexts.

Before analysing the data using factor analysis, respondents' and their senior managers' ethnic groups are cross-tabulated with the kinds of organisations they work for. This is an attempt to check the distribution of managers in private and government offices in terms of their ethnicities. Statistical data analysis shows a couple of interesting findings. First, all 47 (100%) of our Chinese respondents work in the private sectors, thus, none of them work in the public sectors. Second, whilst 62 of the 63 respondents' Chinese senior managers (98.4%) work in private-profit making firms; only 1 person (1.6%) works in State-owned firm. On the other hand, within category of kinds of organisation, 63.6% of Javanese senior managers work in State-owned Enterprises (SOEs). The data implies several issues that prevail in Indonesia during the time this study was carried out. First, strong discrimination and resentment against Chinese Indonesians may still prevail in modern Indonesia, making Chinese Indonesians to be reluctant to work in SOEs and other government offices where almost all staffs in those organisations are *pribumi*. Second, our data shows that Javanese senior managers still dominate state-owned firms and government offices.

The findings may be explained by the data in part VII regarding information on managerial perceptions on the conduciveness of the current business situations in Indonesia. Statistical data shows that compared to Javanese and Sundanese managers mean value of Chinese Indonesian managers' is the lowest. This means that Chinese Indonesian managers consider the general business situations in the country are still not conducive. This is probably because Chinese Indonesians still feel insecure even though the new government has imposed several regulations in an attempt to reduce discrimination against Chinese Indonesians and make them 'feel at home.'

More interesting research findings are identified when analysis of variance of mean values of variables in each of the six factors is carried out with 95% degree of confidence. First, in general, statistical data shows no statistical significant differences (large variance) either in managerial values or business practices in Chinese and Javanese-managed organisations. This implies that Chinese and Javanese managers share a great deal of similarities in their values as well as practices. This may be due to their

social interactions in the past which had created cultural communications between two ethnic groups, thus their social cultural values are influenced by Confucianism to certain degrees. However, their further historical trajectory developments also show that social cultural interactions among Javanese and people from other parts of the world had resulted in strong Hindu and Islam influences in Javanese society. Analysis of variance shows one significant statistical difference (significant value of 0.001) in managerial values - factor 'Prestige and Security' in variable 'it is important to work in large, well-known and prestigious organisations.' This implies there is a significant difference between Chinese and Javanese managerial values in this respect. It is much more important for Javanese than Chinese to work in large, well-known and prestigious organisations. The data can be explained by their cultural characteristics of social institutions. While both ethnic groups have similar tendency for engaging in personal relationships with other agents as a strategy to deal with a complex and violent environment, however, they have different criteria for choosing the agents to interact with. Whilst Chinese society tends to establish personal relationship based on family/*guanxi* (durable), Javanese society tends to engage in personal relationship that is hierarchical (feudal or charismatic). As a result, Chinese tend to engage in relationship with various agents based on *familism*, trust, reciprocity and mutual benefits, and every effort should be concentrated for the benefits of family and extended family. On the other hand, Javanese life is arranged according to one's social status, position, occupation, life-style, and other social elements. Only people of similar social status, position, and other social elements are treated and included in their social group. Therefore, it is important for Javanese to try to reach and maintain high and prestigious positions in order to be accepted in a high class society. One way of reaching or maintaining this high social status is by working in large, well-known and prestigious organisations since it gives them a sense of self-esteem and recognition. We know that a relationship that is based on one's social class may not be durable, because the degree of intensity in the relationship among agents can change along with changes in agents' social class. Thus, Boisot and Child's (1999) idea on social institution helps us identify the salient characteristics of Chinese and Javanese ethnic groups, which in turn helps us

understand why Chinese and Javanese-managed organisations are different in terms of their managerial values and business practices.

Hence, research findings help us understand why *guanxi*-based relations are pervasive in Chinese society, including in Indonesia as a social institution to deal with a complex environment. By engaging in *guanxi*-based relationship, Chinese can share information and risks with various interacting agents on the basis of reciprocity and mutual benefits, not on the basis of social class. As a result, it is natural and logical for Chinese to be more networked than other ethnic groups in the country, which in turn had helped Chinese to be more experienced and skilful in business. In Bourdieu's terms, we can see that *guanxi*-based network had created social capital for Chinese, which in turn had made it possible for Chinese to learn and create new knowledge from various interacting agents, and thus allowed Chinese to create cultural capital – knowledge on how to behave appropriately in certain cultural contexts. As a consequence, it was possible for Chinese expand their social capital to political spheres with various influential government officials who have scarce and important information. At the end Chinese were able to capitalise their social and cultural capital into economic capital. This may be the answer to our research question on what would be the contributing factors to Chinese successes.

VI. Discussion and Conclusion

Studies about Indonesia are always interesting. Be the studies about the country's arts and languages; religious beliefs and practices; social cultural issues and traditions, and so forth; all have a common feature, which is 'unique in its diversity.' These uniqueness and diversity are products of Indonesia's unique geographical location and condition, as well as historical social cultural communications among people from different parts of the world with those who had come earlier to the country, which had resulted in interesting historical trajectory developments in the country. As a result, people from different ethnic groups share certain degrees of similarities as well as differences in their arts and languages, religious beliefs and practices, social cultural issues and traditions, and so forth. This study is carried out in an

attempt to analyse the impacts of social interactions among managers of different ethnic groups to their managerial values and business practices. The focus of the study is to examine managerial values and business practices in Chinese-managed organisations as compared to Javanese-managed organisations as the dominant cultural group in the country. The study is to analyse in what respects the two ethnic groups share similarities as well as differences, and whether these characteristics can explain the underlying reasons behind economic success of Chinese Indonesians.

Historical evidence shows that Chinese Indonesians since pre-Colonial Era have been economically more successful compared to other ethnic groups in Indonesia, making them also become more powerful politically. Some argue that their successes were believed to be products of bad governance and business practices which are based on KKN (connection, collusion, and nepotism) with influential government officials, including the president's family. As a result, economic envy, social resentments and continuous deliberate discriminatory actions against Chinese have been practiced until the modern Era. The worst and most recent hostile actions against Chinese Indonesians were carried out just a couple of days after the Soeharto government was forced to step down in May 1998. The incident has caused great values of financial loss as well as emotional and psychological effect to many Chinese Indonesians, causing them to run away either temporary or permanently to the neighbouring countries for security. Many also believe that Chinese economic successes owe a lot to their historical backgrounds, and social-cultural values which are very much influenced by Confucianism. Scholars believe Confucian teachings are embedded in Chinese society, and as a result, have created three salient properties characterising Chinese society: *familism*, pragmatism (Redding, 1990) and *guanxi*-based network (Hamilton, 1996). Hence, out of the two contradicting believes and opinions, which one can be said to explain economic success of Chinese Indonesians?

This chapter discusses the overall conclusion of the thesis. It covers discussions on main findings of the study, as well as their theoretical and practical implications, limitations of the study, as well as future research suggestions. Although the chapter is divided into different

parts, each part is inter-related with one another, thus, the discussions of which should be treated as inseparable.

6.1 Discussions of the main findings

Main findings of this study are divided into three main parts. The first part covers main findings on managers' demographic profiles in terms of their ethnic groups and types of organisation they work for, i.e. private and state-owned firms. The second part covers main findings on managerial values, and the third part discusses main findings on business practices in Chinese and Javanese-managed organisations.

6.1.1 Research findings on respondents' and their senior managers' demographic profiles

There are three interesting main findings in managers' demographic profiles. First, all 47 (100%) of Chinese respondents in the sample work in the private firms and none of them work in state-owned firms (SOEs). Second, whilst 62 of the 63 respondents' Chinese senior managers (98.4%) work in private-profit making firms; only 1 person (1.6%) works in state-owned firms. Third, on the other hand, 63.6% of Javanese senior managers in our sample work in state-owned firms.

The data imply two important issues that prevail in Indonesia during the time this study is carried out. First, strong discrimination and resentment against Chinese Indonesians may still prevail in modern Indonesia, making Chinese Indonesians reluctant to work in SOEs and other government offices where in almost all cases have 100% *pribumi* staffs. Second, the data show that Javanese senior managers still dominate state-owned firms and government offices. The first data may be supported by another research finding regarding managerial perceptions on the conduciveness of the current business situations in Indonesia (Questionnaire part VII). Here, statistical data show that Chinese Indonesian managers' perception has the lowest average of mean values when compared to their Javanese counterparts. This means that Chinese Indonesian managers consider the general business situations are still not very conducive. This is probably because Chinese

Indonesians still feel scared and insecure in Indonesia even though the new Indonesian government has tried to impose several regulations in an attempt to reduce discrimination against Chinese Indonesians.

6.1.2 Research findings on managerial values

Analysis of variance with 95% confidence shows there is a significant statistical difference (significant value of 0.001) in managerial values - factor 'Prestige and Security' in variable 'it is important to work in large, well-known and prestigious organisations.' This implies that compared to Chinese, it is much more important for Javanese managers to work in large, well-known and prestigious organisations. As discussed in chapter 5, this finding is in line with Javanese social cultural values which are shown in cultural characteristics of Javanese social institution of *fief* – type of institution. Javanese tend to engage in personal relationship that is hierarchical (feudal or charismatic). If compared to Chinese, Javanese social lives are arranged according to their social status, position, occupation, life-style, and other social elements. On the other hand, Chinese tend to engage in personal relationship that is based on *familism*, trust, reciprocity and mutual benefits. As a result, for Javanese, only people of similar social status, position, and other social elements are treated and included in their social group. Therefore, it is important for them to put efforts to reach and maintain high and prestigious positions in order to be accepted in a high class society. One way to do that is by working in large, well-known and prestigious organisations since it gives them a sense of self-esteem and recognition. However, relationship that is based on one's social class may not be durable, because the degree of intensity in the agents' relationship can change along with changes in agents' social class.

Further more, in variable 'It is important to work in an organisation that provides employment security (including a retirement plan and benefits), there is a quite significant value in mean differences (0.094) among managers. Even though statistically that level cannot be considered as significantly different, however, it

can be considered as important. Statistical data shows it is more important for Javanese than Chinese managers to work in organisation that provides employment security (including retirement plan and benefits). This is also in line with the above explanation, because ‘employment security’ is an important motivator for self-esteem as a sense of accomplishment and recognition from others (Maslow, 1970).

6.1.3 Research finding on business practices in Chinese and Javanese-managed organisations.

Overall, analysis of variance shows that there are no significant statistical differences in the mean values of Chinese managers compared to Javanese managers in their business practices. This includes their business practices in regards to codification of rules and regulations. Managers of both ethnic groups consider all variables as important, as shown in the high value of average mean of each variable. The fact is in line with organisational size of firms where Chinese and Javanese senior managers work for. Majority of those managers works in large firms (having more than 1,000 employees). The bigger an organisation is, the higher is the need for information codification because it allows firms to achieve higher efficiency in organisational processes, thus, and there is a tendency to shift to bureaucracy or market institution (Aldrich 1979; Boisot, 1995; Boisot and Child, 1999).

6.2 Implication of research findings

6.2.1 Implication of findings of respondents’ and their senior managers’ demographic profiles

Research findings show that there is almost no Chinese Indonesians work in state-owned firms or government offices, also, Javanese managerial staffs dominate those institutions. This situation may be as a result of ‘insecure’ and ‘unwelcome’ feelings of Chinese in those organisations. Several implications can be derived from these findings. One explanation can be discussed in terms of knowledge management. Literatures in knowledge management studies (knowledge sharing,

transfer and creation) show that diversity in a work place can improve the performance of organisation and promote practices that enhance productivity of all staffs. As discussed earlier in chapter 3, these are possible because most of our knowledge is acquired in the course of our socialization (Polanyi, 1958). Thus, interactions and socialisations of people from different social cultural groups can promote knowledge sharing and enhance new knowledge creation and acquisition, which in return can improve organisation's performance. Interactions with people from different background or 'outsiders,' create a 'cultural clash' which promotes questions and critical views on 'old' routines and practices which have been embedded in a certain environment (organisation) (Hall, 1960). However, for knowledge sharing and new knowledge creation to be possible, 'shared context and understanding' as a 'space' or '*ba*' must prevail (Nonaka and Konno, 1998; Nonaka et al. 2000).

Therefore, if the overall environment in Indonesia is perceived by Chinese Indonesians as violent, discriminatory, insecure, unpredictable, and thus, complex, Chinese would tend to engage in *guanxi*-relationships with their fellow Chinese men or even with their Western counterparts, rather than with Indonesian *pribumis*. Thus, Chinese would prefer to work in private firms or multi-national firms rather than in state-owned firms and government offices.

We know from history that Chinese ethnic groups have been successful in business. Even since Indonesian pre-Colonial Era, Chinese in this region have been more successful than people of different ethnic groups, including the *pribumi* (Bentley, 1993). Their success stories as immigrant entrepreneurs were believed to be very much influenced by their Confucian values of diligence, order, filial piety and familial responsibility, which promoted prudent use of resources and capital accumulation (Redding, 1990). Redding also suggests that these social-cultural values influences the Overseas Chinese rules of action, which are based on work ethics, money and modesty, and pragmatism (Redding, 1990). As a result, three

salient characteristics in Chinese social and business practices are identified. They are *familism*, pragmatism (Redding, 1990); and *guanxi*-network (Hamilton, 1996).

Therefore, in a country as diverse as Indonesia, harmonious social interactions among Chinese and hundreds of other ethnic groups can enhance greater social and cultural understandings among all interacting agents; and as a result, can reduce mis-understanding and prejudice among them to eventually create new knowledge for the benefits of all. Hence, understanding each other can help understand why Chinese tend to engage in *guanxi*-based relationship which is mostly interpreted and associated with KKN (connection, collusion and nepotism). Until such an environment exist in Indonesia, social conflicts among different ethnic groups, especially among Chinese and non-Chinese are inevitable and difficult to manage; and economic envy and social resentment against Chinese Indonesians will not disappear.

6.2.2 Implication on findings of managerial values

Research findings show there are differences in managerial values between Chinese and Javanese managers. First, there are statistical significant differences (significant value of 0.001) in managerial values - factor 'Prestige and Security' in variable 'it is important to work in large, well-known and prestigious organisations.' Another research finding shows that it is more important for Javanese than Chinese managers to work in organisation that provides employment security (including retirement plan and benefits). We know from the previous finding that majority of staffs in state-owned firms and government offices belong to Javanese ethnic groups.

As discussed earlier, these findings are in line with Chinese and Javanese social cultural values. Chinese social cultural values which promote *guanxi*-based relationship including 'co-opting' with partners who have institutional influence to handle the external complexity which derives from bureaucracy and its

manifestations of arbitrary behaviour, allow Chinese to enhance their capability to be more adaptive and plausible (Boisot and Child, 1999). Thus, having *guanxi*-based relationship with various agents makes it possible for Chinese to share, acquire important and scarce information from influential decision makers (including important government officers), which in turn allow them to share the valuable knowledge among their business partners (mostly with their fellow Chinese partners). As a result, *guanxi*-network provides Chinese with a mechanism for sharing, acquiring and creating new knowledge. Moreover, *guanxi*-network is more stable and durable because it is maintained through continuous nourishment and mutual benefits among related members. At the end, all partners are required to support each other and contribute for the benefits of the whole network.

On the other hand, Javanese tend to establish personal relationship based on hierarchy and social status, which are represented by occupations, positions, lifestyles, and other social elements, rather than '*familism*.' As a result, the relationship is not as durable as in *guanxi*-network. As soon as people lose their social status, they will be treated as 'outsider.' This explains why it is important for Javanese to put all efforts to reach higher social status and to maintain the high status as long as possible.

Implications of these values may be exhibited in various business practices, which include among others: hiring internal staffs of the same ethnic groups (as their 'in-groups') who possess the cultural capital and knowledge of how to conduct appropriate behaviours; evaluating subordinates' assessment that is based on hierarchical relationship and 'proper manner,' rather than performance. In the long run these practices jeopardise companies' performance. Therefore, it is difficult to create performance-based and competitive state-owned organisations. Externally, Javanese state-owned staffs may establish personal relationships and business partnerships with 'well-to-do' and influential politicians and business practitioners (including Chinese Indonesians) to allow them to accumulate wealth as well as

‘public’ recognition. This also creates difficulties for government to create clean government and strong government institutions, especially when this particular ethnic group dominate important positions in government offices.

6.2.3 Implication on findings of business practices

As discussed earlier, the bigger an organisation is, the higher is the need for information codification because it allows firms to achieve higher efficiency in organisational processes, thus, and there is a tendency to shift to bureaucracy or market institution (Aldrich 1999; Boisot, 1995; Boisot and Child, 1999). However, as firms turn into bureaucracy or market institution, there is also a tendency for firms to pay more attention to organisational process (for efficiency) rather than performance (for creativity and innovation).

This finding implies the dilemma of organisational growth. Organisations have to maintain its competitive advantage by providing an environment which promotes creativity for possible innovation. This is especially critical in firms which deal with high technology. The bigger an organisation is, the higher is the tendency to impose ‘complexity reduction’ strategy rather than ‘complexity absorption’ strategy, as discussed in chapter 2 (Boisot and Child, 1999). As a result, all the benefits created by absorbing complexity will be sacrificed for bureaucracy and impersonal relationship. For Asian societies where interdependence is more salient than independent, complexity reduction strategy may not be the best choice of strategy since it is not in accordance to social cultural values which are embedded in such societies. Complexity reduction strategy may create low satisfaction in workplace, which in turn result in low performance. According to Boisot (1985), high codification and abstract which is based on technology reduces face-to-face personal communication, and there is ‘converging cultures’ which can result in ‘loss of cultural variety and lead to diminution of their collective capacities to innovate and evolve’ (Boisot, 1995).

6.3 Limitations and future research suggestions

6.3.1 Limitation on research instrument

Since there was no instrument available that taps the exact same construct the analyst needs to measure, the instrument was constructed based on a similar instrument developed by Adams G. and Vernon H. (2001) on business culture and practice in Thailand, with some modification. The modification was constructed based on the main concept of this study - information complexity management in different transactional structures introduced by Boisot and Child (1999). As a result, several questions have to be eliminated to arrive at more meaningful and interpretable factors or scales. The instrument should have been tested before in a pilot test prior distribution to target respondents. However, due to different domiciles of the analysts and respondents, as well as problems in coordination, a pilot test was not carried out.

6.3.2 Limitations of Research Methodology

This study is approached using quantitative method with questionnaire as main research instrument. Even though quantitative research has some strength, it also has some limitations. The strengths are for example, reliability, large-scale, useful to check several numbers of statistical methods. It is also replicable and track-able – can be used for example for longitudinal tracking; and it can be performed automated- thus provides more economic benefits. However, quantitative method also has some limitations, for example, limited for exploration (response to innovative concepts); interpretability (lack of ability to interpret certain areas, such as social behavioural studies); and it can be potentially misleading.

Quantitative research is strongest when utilized to understand established concepts – not new and innovative issues like this study. Since there was no identical study carried out in the past to measure the same construct, quantitative method is not the best method. Moreover, it makes analyst to rely very much on statistical data that is often perceived as irrefutable truth, but in fact unreliable as a result of several factors. These include: wrong questionnaires design due to leading questions; bias

in data collection methods; margins of error due to small sample sizes may render findings insignificant; or analysts may present only those findings that support an unseen agenda. Just as with qualitative research, the skill of the researcher in interpreting data in an unbiased but meaningful way has a major impact on the project's value.

Realising all the strengths and weaknesses in quantitative research methodology, this study is carried out using this method for several reasons. First, while the study is carried out, the analyst domiciles in New Zealand, while the target respondents are Indonesian managers representing different organisational types, activities, as well as ethnic groups. For this reason, quantitative method using direct data collection procedure is more efficient because it allows the researcher to collect data quickly, if not immediately. It was also considered as effective because it gave opportunities to respondents to ask the researcher directly, should they need further clarification on the questionnaire.

Furthermore, this study is an exploratory study based on social cultural approach and the main instrument has never been tested in the past, thus is analysed using factor analysis - a statistical technique which is widely used in psychology and social and behavioural sciences (Kline, 1994). Besides, factor analysis run by SPSS (Statistical Package for the Social Sciences) allows us to discover the main constructs or important value dimensions by simplifying complex sets of observable variables in terms of a small number of latent (inferred or unobserved) factors. Thus, it is used to assess the construct validity of a test or a scale. Hopefully, this construct can be used for further studies.

6.3.3 Limitations in sampling and data collection method

6.3.3.1 Limitation in sampling

The respondents used for this research are all from the same institution. They are either MBA executive students or In-House-Training participants of Prasetiya Mulya Business School – a private school in Jakarta,

Indonesia. Even though the sample is quite varied in terms of respondents' backgrounds as well as companies (activities, sizes), there are some limitations, such as: all respondents are well educated managers from the same educational institution, thus, do not represent the whole population.

6.3.3.2 Limitation in data collection

Questionnaire was distributed at the beginning of a lecture, after a brief introduction and explanation by the researcher. In some cases, with the student's and lecturer's permission, the questionnaires were filled in right away before the lecture started. In this case, timing might not be appropriate as some respondents might actually require more time. In other cases, the questionnaires were allowed to be filled in at a later time, and be returned to a class coordinator after completion to be further collected by the analyst/researcher. In this case, there is lack of control over the process. There is always a possibility that the questionnaires were filled in by another person, not by the respondent in question. Thus, do not represent the real information. Another limitation is that the researcher cannot assist the respondents should a question(s) arise during the process of filling in the questionnaire.

6.4 Future research

This study explores business practices in Chinese-managed organisations in comparison to Javanese-managed organisations based on Chinese and Javanese social cultural values as well as their historical trajectory developments in Indonesia. Several interesting research findings as discussed in the previous sections, have helped us enhanced our understanding on business practices in the socio-cultural perspectives that prevail in Indonesia. Overall, this study supports the idea that culture has everything to do with managing organisations. Only by understanding social cultural values that are embedded in an environment, can one understand organisational practices that prevail in such an environment. This is even more critical for a country as culturally diverse as Indonesia. Understanding social ethnic diversity allows us to arrive at better organisational practices

that suit overall organisational members better; which in turn increase organisational performance. Therefore, care must be taken when implementing Western organisational theories and practices, as they may not be relevant in Indonesia. Judgment and modifications are necessary to arrive at better organisational practices. Based on research findings several suggestions for future research are proposed in the followings.

1. Managerial values and organisational types (state or private-owned firms).

As discussed previously, there are several interesting findings in this study. One of the most interesting findings is the significant difference in managerial values of Chinese and Javanese managers. Compared to Chinese managers, Javanese managers consider ‘prestige and security’ as significantly more important. Another interesting finding is that, while none of Chinese manager works in State-owned firms, Javanese managers is the majority ethnic group in those firms, suggesting that Indonesian State-owned firms are dominated by Indonesian *pribumi* of Javanese ethnic group. One possibility may be caused by the prevailing discrimination against Chinese Indonesian, making Chinese reluctant to work in state-owned firms and government offices.

Another possibility may be caused by managerial values of both ethnic groups. As have been discussed, Chinese social interactions are arranged based on *familism* and durable *guanxi*-network, whilst Javanese social interactions are arranged based on one’s social status, position, life-styles, and other social elements. Thus, the data may imply that as a result of social cultural values of these two ethnic groups, it is more suitable for Javanese to work in hierarchical and bureaucratic form of organisation, which is prevalent in state-owned firms and government offices; while on the other hand, for the same reason, it is more suitable for Chinese to work in private-owned organisations which are more flexible and less bureaucratic? Further studies are suggested to find answers to these questions.

2. Managerial values and organisational designs

Using similar arguments, further studies are suggested in order to evaluate the impacts of managerial values on social and organisational practices and strategies, including their corporate cultures, organisational designs (chain of command, communication, formality, organisation, coordination, and centralisation); and other functional managements (human resource, operations, marketing, financial managements); as well as their impacts on organisational performance. Studies similar to these may help us understand what kinds of organisational models are more suitable for private and state-owned firms in Indonesia, especially in the increasing competitive market.

3. Business practices of Chinese *totok* and Chinese *peranakan*

Last but not least, we know that Chinese in Indonesia are not homogeneous as a result of their different social interactions which resulted in different historical trajectory developments in Indonesia. For example, in the study we have discussed different practices in Chinese *totok* and Chinese *peranakan*. While they both tend to engage in *guanxi*-based relationships with their business partners, they are, however different in their ways of selecting and giving support to their partners. Chinese *totok* tend to engage in *guanxi* relationships with their fellow Chinese men (*totok*), including providing each other with financial and non-financial support. On the other hand, Chinese *peranakan*, while not able to have access to such support, tend to engage in *guanxi*-relations with non-Chinese *totok*, including with their indigenous (*pribumi*) friends. This suggests that Chinese in Indonesia are different. Future research concerning diversity in Chinese social ethnic values and practices may help us increased our knowledge on the differences in their business practices. For example, to what degrees are these two groups different in their *familism*, pragmatism and networking as the three salient characteristics of Chinese society?

6.5 Summary and Conclusion

As stated in the beginning of this study, the unstable social political issues and discrimination towards Chinese ethnic group in Indonesia had caused many Chinese

Indonesians to be reluctant to share their business practices and consequently this has prevented scholars from having a closer look at Chinese business practices in the country. Moreover, other studies that were carried out in the past on business practices in Indonesia were based on Western theoretical concepts not on Chinese backgrounds. As a result, there are limited resources for further studies on Chinese business practices in the country; and therefore the underlying reasons behind the pervasiveness of *guanxi*-based relations in Chinese community and Overseas Chinese successes in Indonesia have never been revealed. This study is attempted to find answers to those questions.

By treating organisations as autonomous and self-regulated entities, this study explores business practices in Chinese-managed organisations in comparison to Javanese-managed organisation based on cultural characteristics of Chinese and Javanese social institutions which are influenced by their social cultural values as well as historical trajectory developments in Indonesia. Understanding these issues help us understand why Chinese and Javanese-managed organisations, while sharing certain degrees of social-cultural similarities, are also different in their strategies in dealing with a complex environment. As a result, Chinese and Javanese are different in their managerial values and business practices as ways of coping with the complex environment.

Several important social cultural issues and critical historical evidence of Chinese and Javanese social interactions are noted in this study in order to explain why *guanxi*-based relations are pervasive in Chinese community, and why Overseas Chinese in Indonesia tend to be more successful compared to other ethnic groups in the country. First, history shows that the communication of religious and cross-cultural interactions has created the continuous power struggles among merchants from different parts of the world with people who came earlier to Indonesia (Bourdieu, 1991; Bentley, 1993), which in turn, had created a unique blend of cultural practices that interact with other elements of Indonesian social life within the Indonesian society in general (Geertz, 1961). This includes the creation of unique blend of cultural practices among Chinese and Javanese. Due to these social cultural interactions, it is believed that the philosophy of life and

religious beliefs of Javanese *priyayis* - were very much influenced by a mix of Buddhism and Confucianism, which later in the history had Hindu as well as Islamic influence (Geertz, 1960). Second, historical evidence also shows that Chinese have been economically successful and presumably the most influential group compared to the Arabs, Persians and Indian traders since a long time ago, even before the colonisation era (Bentley, 1993). Thus, Chinese capitalism was not built in the modern era of Indonesia as a result of government protection and KKN (Connection, collusion and nepotism) practices, but instead, it had been built a long time in advance before Indonesians' independence. Chinese were already "capitalistic," that is profit-oriented, in the private sector. Third, as a result of powerful history of Javanese rulings in the region, the influence of Javanese culture (i.e., a mix of Confucianism, Buddhism, Hindu and Islam) has been strong since the pre-colonial era, and still prevails in the modern era (Goodfellow, 1997, Suseno, 1997; Kingsbury, 2001).

History of Chinese economic successes continued in the colonial and the independent era as a result of their hard work and business skills, as well as their social and business networks which together created the basis on which the economic capital of the Indonesian Chinese has been established. For example, besides working as coolies, many of the Chinese sojourners who came to Indonesia earlier, worked with or for their successful family members or their fellow Chinese men due to attractive economic expansion in Southeast Asia. Moreover, the patri-lineage system and division of inheritance to children created many small businesses, which then expanded through networks recognising no geographical boundaries and no government support and coordination. Many also established or expanded businesses with their former employees. For some Chinese in Indonesia, their entrepreneurship emerged and developed naturally in response to environmental challenges. For example, due to their lack of higher education and ability in foreign language (bahasa Indonesia or Dutch language), some Chinese could not work as professionals in companies, thus naturally became small retailers (self-employed). It shows that Chinese is flexible and realistic (pragmatic) in making decisions. They are willing do anything for survival, including shifting their occupation. Besides, in order to create social harmony, especially within

Chinese community, fellow Chinese men in *guanxi*-network helped each other by providing the necessary support (financial and non-financial).

Later in history, when the situation got tougher and discriminatory actions against Chinese Indonesians increased, they managed the complex environment by extending their relationships with non-kinship or non-Chinese partners. This includes building relationships with government officials who had the institutional influence to handle the external complexity which derives mainly from the bureaucracy and its manifestations or arbitrary behaviour. For example, in the Dutch colonial era, besides being entrepreneurs as craftsmen, tea traders, and sugar cultivators, some of them also acted as tax collectors, credit providers/money lenders and middlemen or *compradores* for the Dutch, providing them a mechanism to expand their social network even wider. As a result, Chinese became more successful economically and powerful politically. Later in history, Chinese economic networks expanded to China, Taiwan, and Japan.

After Indonesian people proclaimed their independence, discriminatory actions against Chinese reached its peak, especially in the Soeharto era (1966-1998), which are marked by several important incidents. For example, prohibition of the use of Chinese language, socio-cultural practices, as well as their rights to join-in the military, academia, and government services, which had forced Chinese Indonesians to engage in business. As a result of such regulations, Chinese Indonesians became more and more skilful in business and trades, while many *pribumi* were mostly engaged as government employees and bureaucrats. Having more experience and skills in business, Chinese Indonesians were invited by the government to participate in the ‘infant’ national economic development. As a consequence, large Chinese corporate groups emerged and developed in this era. Thus, even though politically, Soeharto era was full of political unrest, this era was a critical era for the establishment of major large Chinese corporate as products of government regulations in its attempt to initiate an industrialised nation using import substitution as well as export orientation policies.

Similar to the previous eras, the discriminatory actions against Chinese in this era increased the complexity in an already complex environment. Chinese Indonesians managed their external environment by absorbing the complexity by cooperating loosely with other agents, i.e., engaged in relationships with the *pribumis*, including high ranking government officials and their family members. Business relations with Soeharto's families and friends were widely practiced until May 1998 when Soeharto and his government were forced to step down due to continuous severe economic crisis, which had caused a large number of companies, many of which belong to Chinese Indonesian businessmen, to close down. As a result, many Indonesians lost their jobs, which in turn, caused racial tensions towards Chinese Indonesians as well as antagonism towards Soeharto's family and his friends, including Soeharto's Javanese high ranking officials and businessmen, (Suryadinata, 1999). Chinese Indonesians were mostly blamed for their KKN (connection, collusion and nepotism) practices which were believed to have decreased honesty of government officials (Schwarz, 1994; Husnan, 2001). Only certain people (group of people) who are involved in *guanxi*-network circle enjoy economic success, creating increasing economic disparity between the poor and the rich (Schwarz, 1994). As a result, many believed KKN to be the key success factor of Chinese economic successes.

Despite of economic envy and social resentment against Chinese Indonesians, we can see that originally, Chinese capitalism in Indonesia was not established by elite groups, but by heads of households (e.g., traders, money lenders). Chinese capitalism was not organized through large institutions that were controlled by the state; instead, it rested largely on flexible small-medium sized household-based, family-owned enterprises which used inter-connected network relationships as organizational medium for the economy. Also, economic transformation in Asia cannot be accurately explained by looking at the economic activities in a particular geographic location only (e.g. Indonesia) because since the early days of Asian economic development, Chinese had established business networks with their fellow Chinese businessmen in different parts of the world. Thus, Chinese capitalism is neither a domestic capitalism nor a product of

indigenous economic growth. It is an integrated process of their social cultural values and government regulations.

We can see that Confucian's treatment of 'family' as the most building block of an ordered society that is organised according to reciprocal relationship is embedded in Chinese society, which had resulted in strong networks among Chinese.

Thus, this study is helpful for enhancing our understanding on business practices in the socio-cultural perspectives that prevail in Indonesia. Hopefully it may be used for future research to build dimensionality of business cultures and management practices in different contexts.

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