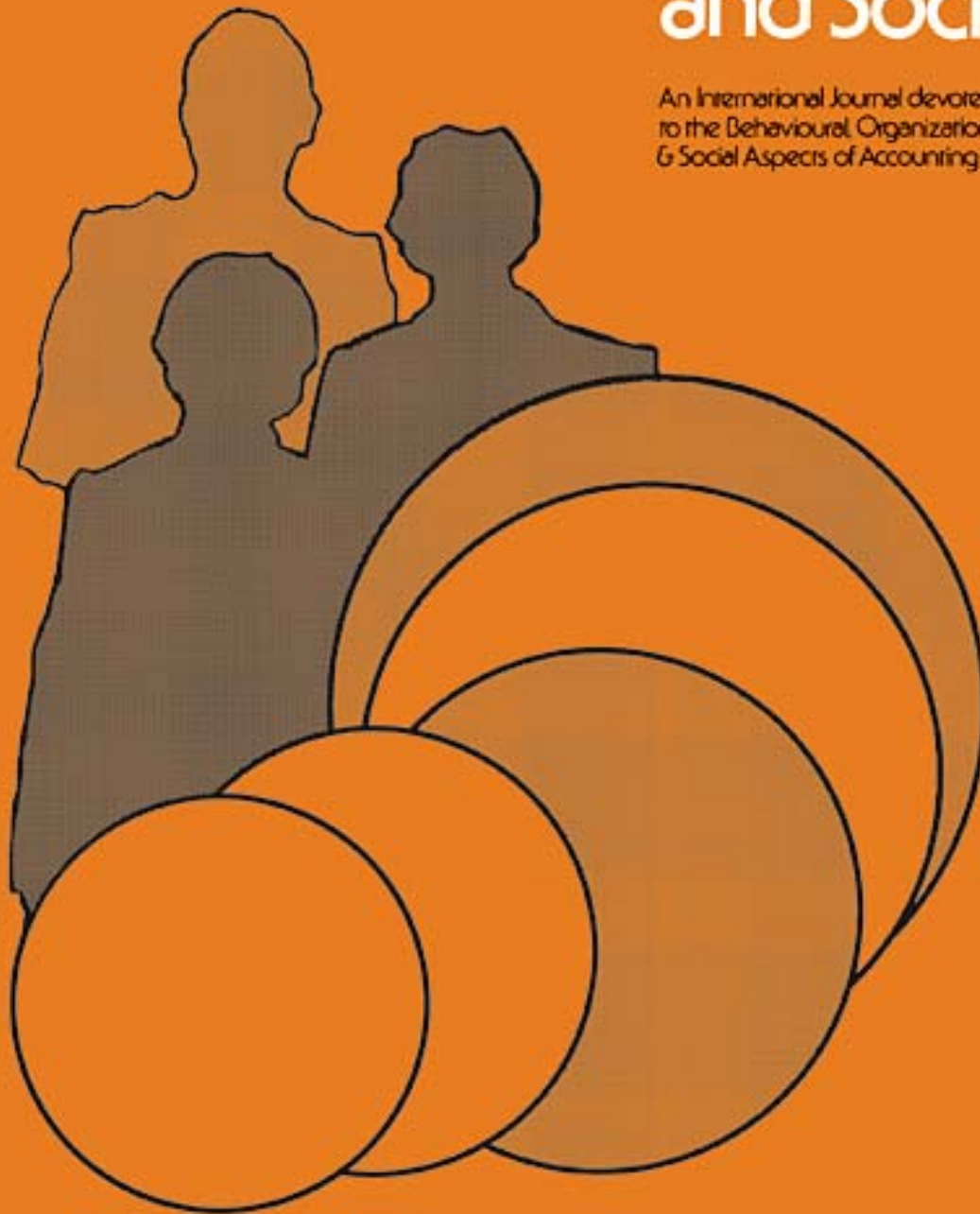


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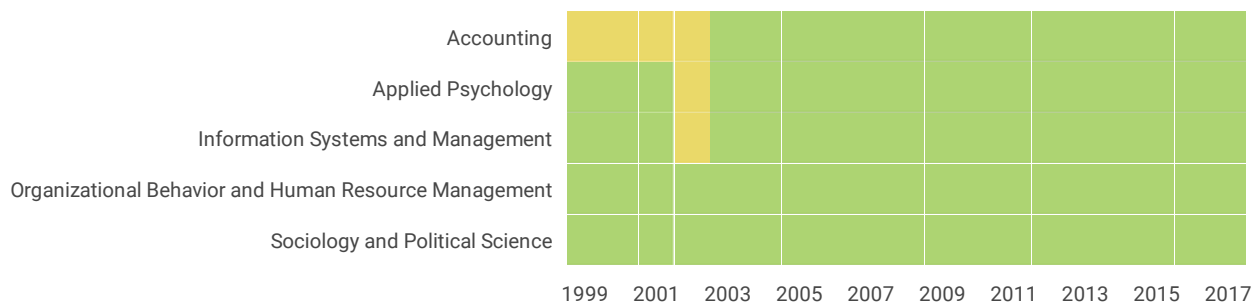
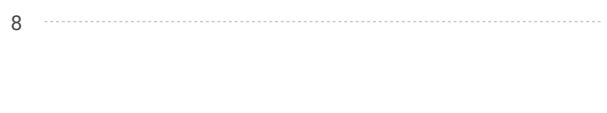
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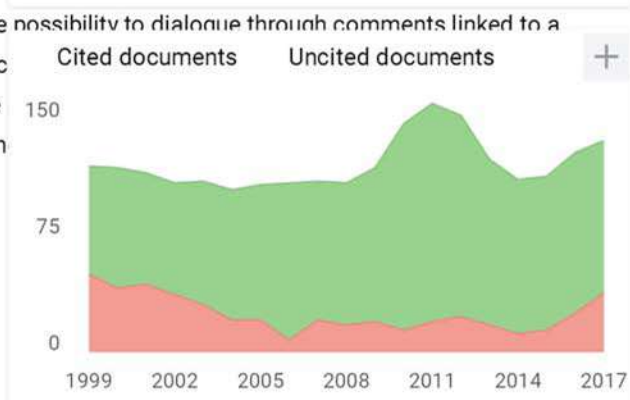
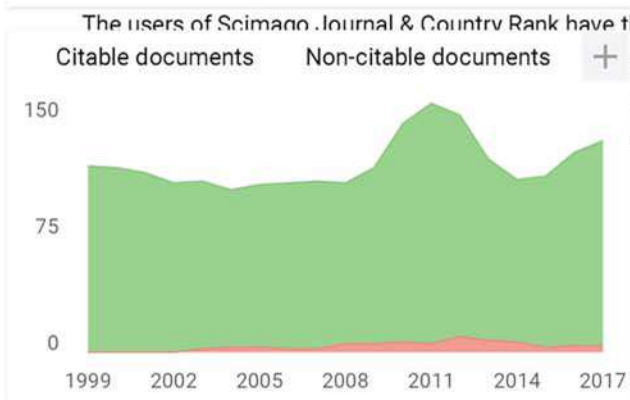
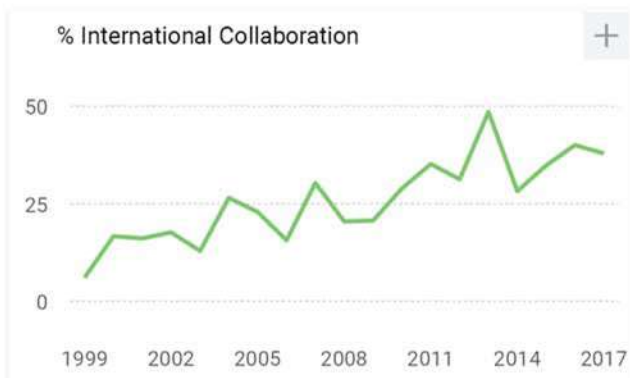
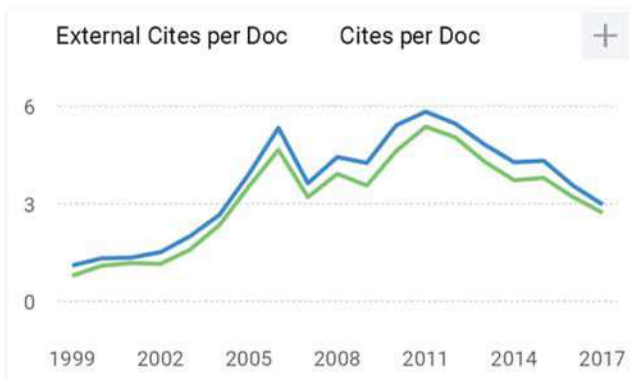
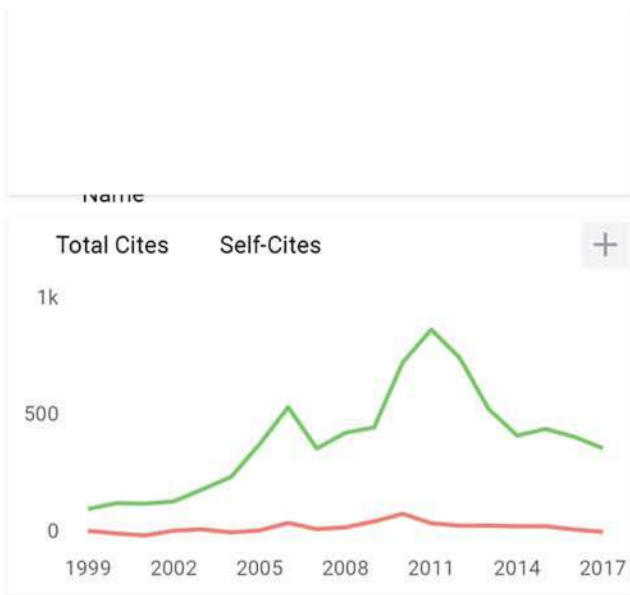
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Management control, culture and ethnicity in a Chinese Indonesian company

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Abstract

This study explores socio-cultural aspects of management control in a Chinese Indonesian manufacturing company. Ethnographic data collection methods were combined with grounded theory data analysis to explore how cultures, ethnic differences, history, politics, and commercial considerations shaped management controls. A combination of emic and etic methods were used to generate grounded comparisons with nomothetic research on culture and control in a cultural contingency tradition.

Chinese Indonesians own most Indonesian private domestic capital despite being an ethnic minority (3–4% of population) and having suffered extensive discrimination. The case links the Chinese businessmen's values to socialisation during childhood and then examines how their interaction with the Javanese culture of *pribumi* employees, ethnic tensions between employers and employees, and organisational and economic factors affected management control. Consistent with previous cultural contingency research the Chinese owners' preferences resided with controlling behaviour through personnel and behavioural controls, low budget participation, centralisation, subjective rather than objective controls, and tentatively, few rewards tied to results and the use of group rewards. Whether Chinese managers exhibited longer term orientations concerning planning and rewards could not be ascertained. However, ethnic tensions and commercial considerations mitigated the owners' ability to control according to cultural preferences. Based upon these findings reflections on past research and suggestions for further developments are made with respect to methods, methodology, and incorporating a broader range of theories and issues, especially ethnicity, politics, and history.

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Introduction

There has been considerable interest in whether national cultures produce different control systems (see Bhimani, 1999; Harrison & McKinnon, 1999).

However, the research is beset with theoretical and methodological controversy (Baskerville, 2003; Baskerville-Morley, 2005; Hofstede, 2003) and inconsistent and problematical results (Harrison & McKinnon, 1999). Bhimani (1999) argues the two main conceptual approaches used to date, structural contingency and culture based ideational theories, need supplementing with theories of societal effects, new institutional sociology, and ‘new’ accounting history, despite their different assumptions about what homogenises control systems, the nature of controls, appropriate research methodologies, and their focus of analysis. This paper illustrates Bhimani’s claim that theories can be complementary and progress lies in theoretical triangulation rather than continuous sniping over the barricades of the accounting methodology ‘science wars’.¹

There has been particular interest in how Chinese culture impinges on management control.² Our original primary research interest was similar – it lay in exploring whether the cultural beliefs of Chinese owners of an Indonesian manufacturing company were consistent with Confucianism – the foundation of Chinese culture – and how, if at all, these impinged on the firm’s management control system (MCS). However, the Chinese owner-managers operated in a multi-cultural milieu for their employees were predominately *pribumi* (mainly *Javanese* – see glossary for definition of Chinese and Indonesian terms). Thus, if Chinese culture is important for MCSs then *Javanese* culture and inter-cultural interactions should be too.

Multi-culturalism is often associated with ethnic differentiation. Ethnicity is a source of group identity: it not only attributes characteristics (whether founded or imaginary) to members’ focal group but also to other ethnic groups. Ethnicity defines the self in relation to others and can be a

source of action and meaning. This is so in Indonesia, which has many ethnic groups. However, in the political arena the primary ethnic distinction has lain between *pribumi* and Chinese. Politicians’ accusations that Indonesian Chinese contaminate or resist Indonesian national culture led to political suppression of Chinese culture and influence. Chinese Indonesian business practices may draw from Confucianism but they must also co-opt support in hostile local environments marked by resentment of Chinese businessmen, mutual ethnic suspicions, and a history of state discrimination (Ong, 1999; Redding, 1993; Redding & Whitley, 1990; Yeung, 1999). As Bhimani (1999), Wickramasinghe and Hopper (2005), Wickramasinghe, Hopper, and Rathnasiri (2004) argue, addressing multi-culturalism required addressing history, politics, and ethnic conflict.

Cultural contingency research based on surveys, often using cultural constructs from Hofstede (1980), has neglected issues of ethnicity and multi-culturalism. For example, in multi-cultural societies, who is Chinese can be problematic, being an issue of subjective definition rather than ancestry. Cultural contingency research gives little explanation of *what* Chinese values are, *why* and *how* they emerged, why they matter, and how they influence controls. Hence it is unsurprising that it has proven inconclusive (Baskerville, 2003; Chenhall, 2003; Harrison & McKinnon, 1999). Moreover, culture is neither totalising nor deterministic: managers have choices and can act contrary to cultural beliefs. They must consider economic considerations, competition, and factors such as organisational size and technology when exercising control. As the researchers realised in the course of fieldwork, cultural beliefs may be marginal, consequently the central research question broadened to:

How does the socio-cultural environment of Chinese Indonesian businessmen influence the design and operation of their company’s MCS. Is it a consequence of Confucian values, *Javanese* values, ethnic differences, state threats, or best business practice?

The authors believed ethnographic fieldwork could inform this by building theory bottom up, avoid-

¹ An adaption of a point made by David Cooper in a plenary at the Global Management Accounting Research Conference, Michigan State University, 2004.

² Studies of Chinese culture and MCSs have often been on non-mainland Chinese operating in multi-cultural environments. For ease of argument we equate the minority Indonesian Chinese culture with that of mainland Chinese, i.e. a national culture.

ing unduly predetermined categories and causal chains, being longitudinal, and embracing a broader set of issues.

However, the researchers had a dilemma. Understanding the social construction and meaning of an MCS requires emic analysis (which describes indigenous values of a particular society using semiotic ethnography based on ‘thick description’ from fieldwork) whereas most accounting research on Chinese culture and control is etic (it applies broader predetermined theoretical models across several societies). An etic view is how outsiders see and interpret a phenomenon, whereas an emic view is how insiders/participants interpret the phenomenon as part of their world (Marshall, 1998).

The researchers’ inclinations to emic research were tempered by a desire to engage with prior etic research, build knowledge cumulatively, and use theories in a complementary, pluralistic manner (Bhimani, 1999). Hence grounded data was analysed using etic categories from prior research whilst using emic analysis to create new categories and concepts when etic categories did not suffice. Whether to concentrate on building rich descriptions of social groups or make cross-cultural comparisons lies at the heart of methodological debates within ethnography between semiotic and behavioural approaches. The emic and etic distinction was developed by the linguist Kenneth Pike and adapted by Goodenough to develop typologies for cross-cultural comparison derived from field data (Sanday, 1979) to reconcile semiotic and behavioural approaches. The researchers do not claim combined emic and etic methods are superior, or that emic analysis precludes comparative analysis (though it is beyond many emic researchers’ remit, and its creation of overlapping but different categories hinders comparison), rather they claim that these methods were effective for their research aims. As Sanday (1979, p. 34) remarks, “The main differences are whether the primary focus is on the whole, the meaning, or the behaviour and the degree to which the analytic goal is diagnosis or explanation. Which mode one adopts is a matter of taste not dogma. ... What counts in the long run is not how the facts are constructed but whether they make sense.”

The paper initially outlines the model of MCS and features of Chinese culture that provided etic categories of analysis. It outlines propositions of anticipated relationships between culture and MCSs derived from previous research for further examination. The paper then discusses factors not captured by the etic analysis of field data subsequently analysed in an emic fashion. These were the Javanese culture of the firm’s workers and the local context – especially the history of ethnic differentiation and discrimination against Chinese Indonesians. Then the research methods are explained and justified in greater detail. The empirics initially describe the company’s key actors, history, structure, membership, technology, and markets (also significant for understanding the MCS). It then analyses the Chinese owners’ values, their sources, and how these factors – especially cultures, perceived best business practice, and ethnic tensions; shaped result, action, and cultural controls. The conclusions summarise the findings and their implications for future research.

Management control systems and cultural contingencies

Features of a MCS

The researchers’ definition of an MCS was broad – namely a system within social, cultural, political, and economic environments used by management to align employee behaviour with organisational objectives and to manage internal interdependencies (such as management–worker and inter-departmental relations), and external relationships (with the state, society, customers, and suppliers) (Euske & Riccaboni, 1999).

Merchant’s model of MCSs (1998) was used for etic classification as it embraces a wide range of formal and social controls, is operationally well defined, has informed or is consistent with MCS models in previous research, and is not confined to large organisations (Davila, 2005). Management control is notoriously difficult to define. Merchant’s model was used not because it is the ‘best’ but because it provided effective etic categories to analyse emic findings, which enabled results to be

compared with previous research and be linked to internal and external factors that emerged as significant.³ Merchant distinguishes three types of control: result, action, and personnel. They are not mutually exclusive; rather MCSs differ according to emphases on each.

Result control defines outputs expected from employees. Their achievement is often reinforced by rewards. It is most useful if what constitutes effective performance is known, employees can influence results, outputs are measurable, and employees perceive managers' authority as legitimate (Merchant, 1998). *Action control* monitors means (behaviour) rather than ends (results) by prohibiting undesirable acts (behavioural constraints), deriving desired employee behaviour from plans (pre-action review), and monitoring behaviour by direct observation or formal controls (action accountability). *Personnel/cultural controls* (hereafter called cultural control) focus upon recruitment, training, job design, and promoting shared norms and values to induce employee self-control (Merchant, 1998, p. 121).

Dimensions of Chinese culture

The research also needed to determine etic categories of Chinese culture. The researchers' definition of culture is, "a shared way of life that includes values, beliefs, and norms transmitted within a particular society from generation to generation" (Scupin, 1998, p. 36). It provides "... the bases for choice, by a social group, of particular ends and of particular means by which these ends are to be accomplished" (Lachman, Nedd, & Hinings, 1994, p. 41), i.e. it defines what is good or bad, holy or unholy, beautiful or ugly. Individuals judge organisations and respond according to stable core cultural values and less enduring peripheral values whose breach brings less severe sanctions.

Confucianism, the foundation of Chinese cultural values (Suryadinata, 1978), espouses moral laws, *tao*, that emphasise social order, harmony

(Redding, 1993), and social relations based on *jen* that embraces *chung* and *shu* (Suryadinata, 1978). *Jen* is like the Christian doctrine of "loving others as oneself" but extends to justice and equality – similar to secular concepts of law and order. In Confucianism humanity depends upon community status derived from human reciprocity. *Chung* involves sincerity and honesty whereas *shu* emphasises altruism. Both emphasise 'doing to others as you would wish to be done to yourself'.

Confucian values of vertical and horizontal social order influence Chinese business culture (Suryadinata, 1978). Vertical order covers hierarchical social relationships, such as husband and wife, parents and children, masters and servants, rulers and subjects. Each social position has ascribed responsibilities and duties known as *li*, the most important being filial piety (*hsiao*). Parents are expected to educate their children and direct them towards a correct life, whereas children should respect parents, care for them, and protect their dignity. Chinese society is marked by strong family collectivism (Redding, 1993): it assumes people who neglect family responsibilities will not honour obligations to outsiders. The need to fulfil individual responsibility (*li*) underlies all other values. *Hsiao* extends to societal responsibilities, notably respecting, obeying, and demonstrating loyalty to superiors, being wise rulers, and caring for subordinates. Failure to do this will embarrass not just the perpetrators but also their parents.

Self-identity and social order in Chinese culture is embedded in horizontal social relationships (Redding, 1993). Individual 'face' and reputation stems from social group membership. Chinese society consists of concentric circles. The core is the family, surrounded by a lineage group or extended family. Family resources should be protected and enhanced to foster self-sufficiency. Relations between each circle are cemented by mutual trust (Fei, 1939; quoted in Redding, 1993, p. 58). Friends and acquaintances are trusted according to established mutual dependencies in *guanxi* – ethnic based networks that, inter alia, protect family resources. Everyone has a sense of whom to trust and co-operate with, for what purposes. Outside these circles polite but guarded rela-

³ The authors do not deny the value of more emic inclined research on national cultures and control such as Ahrens (1997), Ansari and Bell (1991), and Euske and Riccaboni (1999). Indeed they commend it.

tions prevail. Socialisation by parents and schools (Redding, 1993) and Chinese Indonesian's harsh historical experiences have reinforced and shaped their values over generations (Yeung, 1999), promoting *guanxi* networks as a defensive form of solidarity, co-operation, and self-reliance within families.

Personal trust derives from meeting personal obligations, reputation and 'face'. Neutral, impersonal relationships are difficult as they make determining trustworthiness difficult. Good social relations and mutual trust are valued – 'who you know' is as important as 'what you know' (Redding, 1993). Hierarchical decisions such as firing or hiring, rewards, discipline, and evaluating employees tend to be based on friendship, trust, emotional ties and loyalty rather than results and efficiency. Cultural controls are legitimate in Chinese organisations, are easily established, and tend to supersede bureaucratic controls (Redding, 1993).

Major values derived from *li* and *hsiao* are *qin jian*, *ke ji*, *qin fen*, and *jing shen* (Cleary, 1992; Xu, 2000). *Qin jian* (frugality) emphasises saving, conserving resources, and displaying wealth modestly. *Ke ji* (asceticism) stresses controlling desires for wealth, power and pleasures and fulfilling social responsibilities. *Qin fen* advocates diligence and seeking knowledge and wisdom. *Jing shen* embraces prudence and foresight. According to Confucius (Cleary, 1992, p. 25), "people who do not think far enough ahead inevitable have worries near at hand".

Confucian values have produced a patrimonial Chinese business style (Redding, 1993, p. 155). Power stems from ownership: owners and employees view companies as family property and management as akin to regulating a family. Owner-managers instil values of personal trust, money consciousness and prudence on the family's behalf. Critical positions tend to be assigned to family or trusted members of lineage groups. Leadership is autocratic but paternalistic. Employers are responsible for employee welfare, allocating jobs, stewardship of resources, helping the inefficient, providing security for the old and showing understanding. In return employees should show unquestioning obedience and diligence. The values of *li* and *hsiao* are powerful norms for employers

and employees, especially if both are Chinese, making it relatively easy to establish discipline and stable hierarchies. Patrimony may foster organisational adaptability, goal congruence, compliant and diligent subordinates, and stable organisational membership. On the other hand it can produce nepotism, organisational cliques, non-family members with insufficient authority, information secrecy, subjective performance evaluation, restricted promotion opportunities, risk avoiding employees, and constraints on organisational growth.

If delineations of effective MCS practices derive from the West, and Chinese culture differs from Western culture, then MCS practices may differ in Chinese organisations (O'Connor, 1995; Tsui, 2001). Merchant, Chow, and Wu (1995) conjecture how this may occur using five dimensions of national cultures delineated by Hofstede (1980) and Hofstede and Bond (1984): namely collectivism, masculinity, power distance, uncertainty avoidance, and Confucian dynamism.⁴ Our research adapted Merchant et al.'s (1995) review to generate seven propositions that guide our empirical analysis and provide linkages to previous research. They are that Chinese managers will use:

1. Personnel and action controls rather than result controls (Harrison, 1993; Merchant, 1998; Ouchi, 1979, 1980).
2. Little participation due to patrimony (Lau & Tan, 1998). Controls will be centralised due to lower individualism (Birnbaum & Wong, 1985; Harrison, McKinnon, Panchapakesan, & Leung, 1994; Lau, Low, & Eggleton, 1995; O'Connor, 1995).
3. Subjective rather than objective controls due to an emphasis on trust and personal relations (Merchant et al., 1995; Redding, 1993).
4. Few rewards tied to results (outputs) to avoid loss of face and risk associated with uncertainty (Merchant et al., 1995).

⁴ Hofstede and related accounting work, and the relationship of the five dimensions of national cultures, especially Chinese culture, are not discussed for reasons of space. Fuller expositions are in Lau and Tan (1998), Merchant et al. (1995), and Tsui (2001).

5. Group-based rewards due to values of collectivism and shared risk (Merchant et al., 1995).
6. Few long-term incentives as collectivist values decrease short term gaining (Merchant et al., 1995).
7. Long-run time horizons when planning using subjective information garnered from *guanxi* or social networks (Harrison et al., 1994).

There has been empirical support for some propositions, e.g. participation and centralisation but other studies have produced surprises. For example, Merchant et al.'s (1995) study of (Taiwanese) Chinese and USA managers found contextual factors such as management education and experience, beliefs about stock markets, business growth, type of industry, and labour force mobility affected management controls more than cultural factors. A laboratory study by Awatshi, Chow, and Wu (1998) found USA subjects used group controls in situations of interdependency and made more self-sacrifices than Chinese subjects, contrary to expectations. The failure to consistently corroborate links between Chinese culture and controls have several possible reasons, including assuming that national cultures are unitary whereas societies are often multi-cultural and beset by ethnic tensions, as in this study, where Chinese Indonesian businessmen employed *pribumi*, mostly Javanese, workers. Thus there needs to be an elaboration of Javanese culture and its possible consequences for control.

Javanese culture

There are no studies of Javanese culture and MCSs to the best of our knowledge hence we turned to anthropological work for insight. The pillars of Javanese culture are *alus-kasar* and *lair-batin* (Geertz, 1960). Spiritual excellence stems from *alus* and *kasar*. *Alus* means pure, refined, polite, exquisite, ethereal, subtle, civilised, and smooth. God and his mystical experience are *alus*. Human behaviour and actions are *alus* if they follow appropriate manners and etiquette. *Kasar* means the opposite: impolite, rough, and uncivilised. Everyone from peasant to king is ordered between these two poles. *Lair*, “the outer realm

of human behaviour” refers to an individual's external actions, motions, postures, and speech, whereas *batin* “the inner realm” refers to their emotional life: – fuzzy, shifting private feelings in their phenomenological immediacy (Geertz, 1960, p. 232). Correct combinations of *alus-kasar* and *lair-batin* enable even an uncultivated peasant to attain the level of a hyper-civilised divine king (Geertz, 1960, p. 233). The closer one is to *alus* and the more *batin* experiences one has, the more ideal one is. This produces three clusters of cultural values: social order involving *andap-asor* and *bapakism*, social harmony (*rukun*), and mysticism including rituals such as *slametan* and *kenduri*.

Social order is manifest in Javanese etiquette. This has rigid, formal rules of interaction within social hierarchies, including linguistic forms and *andap-asor*, which means to humble oneself politely and demonstrate correct behaviour. Everyone should know their position and that of others: behaving and choosing words correctly according to who is being addressed is a mark of respect. Words have a status hierarchy ranging across *alus* to *kasar*, and Javanese pattern speech on this axis according to the addressee's status and the conversation's context. Failure to show *andap-asor* can cause shame (*sungkan*) for the recipient, especially if they cannot behave or reply as well as the first person (Geertz, 1960, 1961). Although modern education has brought more egalitarian attitudes demonstrating *andap-asor* is still valued.

Bapakism is a Javanese form of paternalism and patronage (Geertz, 1961; Rademakers, 1998). *Bapak* literally means father but can also mean a charismatic figure that cares for community members. *Bapaks* demand respect, obedience and loyalty from subordinates. They can claim protection, gifts and help when needed but they must listen to, empathise with and proffer advice. *Giving compliments* is important: their proper and constant delivery motivates subordinates and commands respect.

Rukun is the maintenance of social harmony (Geertz, 1961, p. 149). A society without overt expression of divisive opinions and feelings is *rukun*. This is manifest through collective (*musya-*

warah) and unanimous (*mufakat*) decisions, and co-operation (*gotong royong*). Reaching harmonious compromise without intense feelings or expression of resentment is ideal. This can promote evasion, covert disobedience and mutual avoidance in social relations: when conflicts burst open they can be traumatic and severe.

Javanese have strong mystical beliefs. Many believe ancestors, places, and spirits can communicate. Maintaining harmonious relations with spirits is important for a tranquil life. This requires following rituals such as *slametan/kenduri* – a communal feast on important occasions symbolising the mystic and social unity of participants (Geertz, 1960). Though it incorporates some Islamic elements, most Javanese regard *slametan* as distinctively Javanese (traditional spiritualism) and pre-Islamic or even Hindu in inspiration. The goals are psychological: the absence of aggressive feelings, no disturbance, and building unity through social compromise (Beatty, 1999).

Prima facie, Javanese and Chinese cultures are similar in that both emphasise paternalism, hierarchy, reputation, social harmony, and social order though Javanese culture has a distinctive mysticism and set of behavioural expectations. If so, there may be little cultural dissonance if MCSs reciprocate these values.

Problems of cultural contingency

Cultural contingency studies have come under growing attack. First, analyses may be too generalised – they presume what is Chinese is relatively homogenous within and across nations. They pay little heed to cultural diversity in societies and interactions between cultures (Baskerville-Morley, 2005). Second, such studies tend to be static – they ignore how and why cultures change (Bhimani, 1999). Third, they ignore the impact of historical and external organisational factors involving, inter alia, political and economic institutions and struggles upon culture and control (Bhimani, 1999). Fourth, they assume who is Chinese is objectively ascertainable when it may be subjectively defined. Fifth, they fail to establish how cultural values are imbued by socialisation in the family, education systems, and social experiences within and

outside the workplace (Bhimani, 1999) or demonstrate links between beliefs and action – how and whether culture is enacted within MCSs is neglected (Harrison & McKinnon, 1999): action may involve agency or responses to other commercial or social pressures. Sixth, there is undue reliance on problematical concepts and survey research instruments derived from Hofstede, often in tandem with problematical ones from contingency theory and research on accounting performance measurement (Baskerville, 2003; Chenhall, 2003; Harrison & McKinnon, 1999; McSweeney, 2002) – building concepts and factors bottom up through field studies has been neglected.

Bhimani (1999) argues that theories of Societal Effects, New Institutional Sociology, and the ‘New’ (especially Foucauldian) accounting can address these deficiencies despite their different assumptions. For example, whereas contingency theory matches predetermined dimensions of culture and controls, seeks universal results involving functional relationships, assumes purposeful controls can be constructed, and uses nomothetic methods (systematic studies, often statistical, to establish general relationships) the other theories are more inclined to incorporate context, the emergence of systems, and ideographic methods. In contrast, the ‘new’ history stresses uniqueness, complexity, and serendipity; how external institutions bear upon the emergence of controls; rationalities as products of historical power-knowledge regimes; and longitudinal ideographic methods; new institutionalism focuses on subjectivity and contextualised conceptions of social reality; and societal effects has rigorous grounding of contextual factors expressed as theoretical propositions suitable for deeper comparative analysis. We leave it to others to demonstrate the potential of these alternative theories. Our research does not explicitly incorporate the formal substance of any of them. However, we share Bhimani’s advocacy of more contextual, emergent, and ideographic research, and we believe our research methods that combine the emic and the etic, and incorporate the politics of ethnicity, multiculturalism, history, business pragmatism, socialisation, and action over time to study culture and control, reflect the spirit of what Bhimani intended.

Ethnicity, Indonesian politics, and Chinese businesses

From the outset the researchers knew about the history of ethnic strife upon Chinese businesses and Indonesian politics. However, the original focus was upon Chinese culture and controls, hence the emphasis upon their ethnic categorisation. The significance of ethnicity and politics was a minor ‘surprise’ revealed by fieldwork and subsequent data analysis. For ease of exposition ethnicity and Indonesian politics are discussed here but the reader should be aware that the processes of discovery were, as is oft so in case study research, more iterative and ‘messy’ than the paper’s chronology may suggest.

Indonesia, despite the similarity of Javanese and Chinese culture has national integration problems due to religious and ethnic divisions. Approximately 85% of Indonesians are Moslems. The remainder include Christians, Hindus, Buddhists, Khonghuchus,⁵ and followers of Aliran. Moslems disagree whether the state should be secular or follow Islamic law. The largest ethnic groups are Javanese (45%) and Sundanese (15%). The other 400 ethnic groups complain about ‘Javanisation’ of politics and culture but the major ethnic dichotomy is between the Chinese (3% of population) and others (the so-called *pribumi*) (Brown, 1994).

Ethnicity classifies people according to alleged physical and social identities (Fenton, 1999). Ethnic group boundaries may be symbolic (language, ancestry, religion, kinship, or culture) and may have a material and class base. Ethnicity may involve racial and religious stereotyping and be empirically unfounded (Eriksen, 1993) but it influences social action. Culture is often sub-conscious and taken-for-granted whereas ethnicity more consciously defines the self and others. For example, groups use ethnic claims to differentiate themselves and stigmatise other groups to mobilise political programmes.

The state can shape ethnicity (Brown, 1994). Colonial rulers imported labour to Indonesia and adopted *divide and rule* policies. Reserving occupa-

tions such as traders, police, military, and bureaucrats for particular ethnic groups exacerbated ethnic differentiation. Ethnicity rather than class mobilised competition for resources, a common view being, “*We’ve got less because they’ve got more*” (Fenton, 1999, p. 47). This continues today in Indonesia – ethnicity rather than class is correlated with economic segregation, social ranking, and power. Despite only representing 6–8 million of 200 million Indonesians, the Chinese share of private domestic capital far exceeds that of any other ethnic group (Leong & Lim, 1992; Robison, 1986)⁶ yet they have suffered political, social, and economic deprivation (Heryanto, 1997, 1998).

The earliest permanent Chinese settlements in Indonesia date from the late 13th century (Fryer & Jackson, 1977; Ricklefs, 1993). Until the late 18th century, most migrants were males who intermarried with locals, adopted local lifestyles, and are now regarded as indigenous *pribumi*. However, immigration waves after World War I brought numerous Chinese women to Indonesia. Chinese children with Chinese parents raised in a Chinese culture rapidly increased. They became differentiated as *non-pribumi*. However, definitions of ethnic Chinese in Indonesia do not rest simply on biological criteria. For example, many considered as Chinese are by ancestry less than one-quarter so, whilst others with a greater Chinese lineage are considered by themselves and others to be indigenous *pribumi* (Skinner, 1963). Who is Chinese is a social construction stemming from how individuals function within society and with whom they identify.

Chinese Indonesians can be classified into *totok* and *jiaosen*. *Totoks* still practise and educate their children in Confucian values, speak Mandarin or other Chinese dialects, and celebrate Chinese traditional events. Most embrace Buddhism or Khong Hu Chu religions. In contrast, most *jiaosen* are Christians (some embrace Islam), follow few Chinese traditions in daily life, speak little or no

⁵ A derivation of Taoism, Buddhism and Confucianism.

⁶ The share of Chinese capital in the Indonesian economy is controversial (Amir, 1997; Hadiz, 1997; Kwik, 1997; Ning, 1997) and it is difficult to get reliable data. Estimates vary from less than 50% to 70%. Nevertheless, it is widely accepted that Chinese capital is the largest source of private domestic capital.

Chinese dialect, and adopt local customs. Their culture is a mix of Western, local, and Chinese/Confucian influences. Younger Chinese are increasingly becoming *jiaosen* but many Chinese parents still teach Confucian values to their offspring, and many *jiaosen* separate religion and culture, confining religion to personal faith, whereas culture defines proper social conduct.

During Dutch colonial rule (pre-independence) the Chinese were used as economic bridges to other ethnic groups and many prospered. Following independence, the Soekarno regime (1945–1966) incorporated anti-foreign and wealth redistribution sentiments (Chalmers, 1997) in economic programmes to encourage indigenous ownership and ethnicity. The Benteng ('Fortress') Programme (1950–1957) and the Economic Urgency Programme (1951–mid-1950s) promoted *pribumi* economic power relative to Dutch and Chinese capital. The Benteng programme restricted importing to registered *pribumi* merchants. The Economic Urgency Programme tried to create a strong *pribumi* business class by funding modernisation of small-scale *pribumi* manufacturers and restricted some markets to them. It failed because brokers with political connections won licences and sold them to more skilled capitalists, mostly ethnic Chinese. In 1959 a ban on aliens retailing outside designated urban centres undermined the Chinese role as middlemen in national marketing. Many rural Chinese were forcibly transferred into large towns. Refusal to obey evacuation orders enraged army personnel who used harsh physical measures to enforce compliance (Skinner, 1963). This regulation only applied to Chinese without Indonesian citizenship but it made all Chinese insecure for many families were a mix of Indonesian and Chinese citizens. Following regulatory pressures and attacks on their properties many Chinese left Indonesia.

Soekarno's nationalistic economic policy prohibited international capital inflows and its confrontation with ethnic Chinese capital resulted in inadequate investment (Hill, 1996; Hill & Mackie, 1994). The New Order State (1966–1998) assumed power when the economy collapsed. Its focus and legitimacy rested on economic development, through state, private (mainly ethnic Chinese) and

foreign investments, and establishing political stability through authoritarian rule (Robison, 1986). The new political leaders saw Chinese Indonesians as engines of economic development and less threatening to their power than *pribumi* (Robison, 1986). Nevertheless the Chinese suffered discrimination, resentment, scapegoating, harassment, and extortion. They joined the West, Communism, and Fundamentalist Islam as the fourth major 'Other' in New Order political discourse (Heryanto, 1998). The suppression of Chinese culture was justified rhetorically as being alien to 'Indonesian national culture'. Public Chinese festivals were banned, Chinese schools closed, entry quotas applied to public universities and schools, and Chinese symbols removed (for example customs declaration forms categorised printed materials in Chinese characters alongside pornography, arms, and narcotics). The 'othering' of ethnic Chinese was justified by references to their origins outside Indonesia;⁷ Chinese colonial history; and allegations that they socially segregated themselves, overstated their religious and cultural traditions, achieved economic dominance through economic crimes, and their primary loyalties lay with mainland China and communism (Heryanto, 1998). In short, Chinese Indonesians were portrayed as lesser Indonesians who contaminated authentic Indonesian identity.

There were frequent, mass attacks on Chinese property and life (Heryanto, 1997; Ning, 1997). Indonesian newspapers reinforced Chinese stigmatisation (Coppel, 1983, p. 158). Anti-Chinese attacks were often reported as natural and spontaneous – a populist search for justice provoked by Chinese economic domination (Heryanto, 1998). The Chinese turned to the state for protection. This led Chinese businessmen to becoming '*pariah entrepreneurs*' having '*wealth without power*' (Wang Gungwu, quoted in Blusse, 1990) in an environment of conflicts, contradictions, and co-operation. They relied upon powerful politico-bureaucrats for protection who exploited Chinese

⁷ Arabs, Indians, and Indo-Europeans also had external origins but did not suffer discrimination being too few to constitute a threat.

business skills for personal economic and political ends (Mackie, 1992; Robison, 1986).

Soeharto's fall changed policies. The new regime brought a more democratic state, civil not military rule, and ethnic tolerance and pluralism. This improved the position of Chinese Indonesians but conflicts between employers (mainly Chinese) and workers (mainly *pribumi*) persisted partly because wages deteriorated following high Indonesian inflation⁸ after the 1997–1998 Asian financial crises. According to Ministry of Labour statistics (Binawas, 2000), there were 145 strikes in Indonesia during 1999 involving 48,239 workers and 915,105 working hours⁹ but the actual number was greater since many strikes went unreported. The institutionalisation of ethnicity over 350 years permeates economic activities and MCS practices in Indonesia for it fosters ethnic stereotypes and suspicions. For example, many *pribumi* regard Chinese businessmen as exploitative and unscrupulous whereas many Chinese believe *pribumi* are unreliable, lazy, and untrustworthy.

Research methods

Methodology

Most research on MCSs and Chinese culture is etic: its categories draw from concepts of bureaucracy and legal-rational authority in Western societies. Thus ethnographically inclined researchers face a dilemma. They can respect cultural relativism and use emic methods exclusively to generate ana-

lytical categories from field data and not generalise findings beyond the site. However, many ethnographers wish to generalise which requires systematic, cumulative work, better suited to etic approaches. Consequently, anthropological research commonly uses a mixture of emic and etic approaches (Marshall, 1998). This research pursued this path in order to engage with prior MCS and Chinese culture research using etic categorisations. The research model, derived from the review of culture, ethnicity, and MCSs above, is summarised in Fig. 1. It provided etic categories for analysing the emic data collected. The MCS propositions were originally restricted to Chinese preferences for action and cultural controls. The remainder were added subsequently to engage with prior cultural contingency research.

As Bhimani (1999) notes, conventional contingency theory is convergent: it implicitly assumes that factors such as size, technology, competition will make MCSs across the world similar. Its incorporation of national cultures is significant for it introduces ideational notions (Bhimani, 1999). The presumption that people behave similarly according to their membership in a wider society assumes cultural beliefs influence human action and perceptions, thus it introduces subjective issues more commonly studied by qualitative research methods. However, most work on national culture and MCSs, including that on overseas Chinese, tends to follow nomothetic research methods that test hypothesised associations of predetermined attributes of culture, often using research instruments from Hofstede, with dimensions of MCSs measured by instruments from previous contingency work. As argued previously, this approach is problematic.

The ontological assumption here was that MCS practices are a product of individual meanings, shared negotiations and are socially constructed (Hopper & Powell, 1985) – hence ethnographic methods to collect data. The epistemological assumption was that understanding derives from close observation of everyday interactions and actors' explanations – hence grounded theory to analyse data to test prior categories and relations and form new ones (Strauss & Corbin, 1998). We do not deny that social structures capable of gen-

⁸ Inflation was 11.79%, 77.54%, 2.01%, 9.35%, 12.55% in 1997, 1998, 1999, 2000, and 2001, respectively (*Badan Pusat Statistik Indonesia*/Indonesian Office of Statistics).

⁹ Major examples include strikes of: 4000 workers from a garment factory in Bogor-West Java that led to the destruction of the company's office (Kompas, 15 December 2000); 500 workers from a shoe factory in Bekasi-West Java who occupied an inter-city highway for three hours (Kompas, 4 February 2000); 2000 workers from four companies following the dismissal of a worker in Surabaya (Surabaya Post, 22 February 1999), and thousands of workers following the dismissal of seven workers accused of being provocateurs in an electrical appliances manufacturing company in Surabaya, which led to the destruction of the company's marketing office (Media Indonesia, 26 October, 2000).

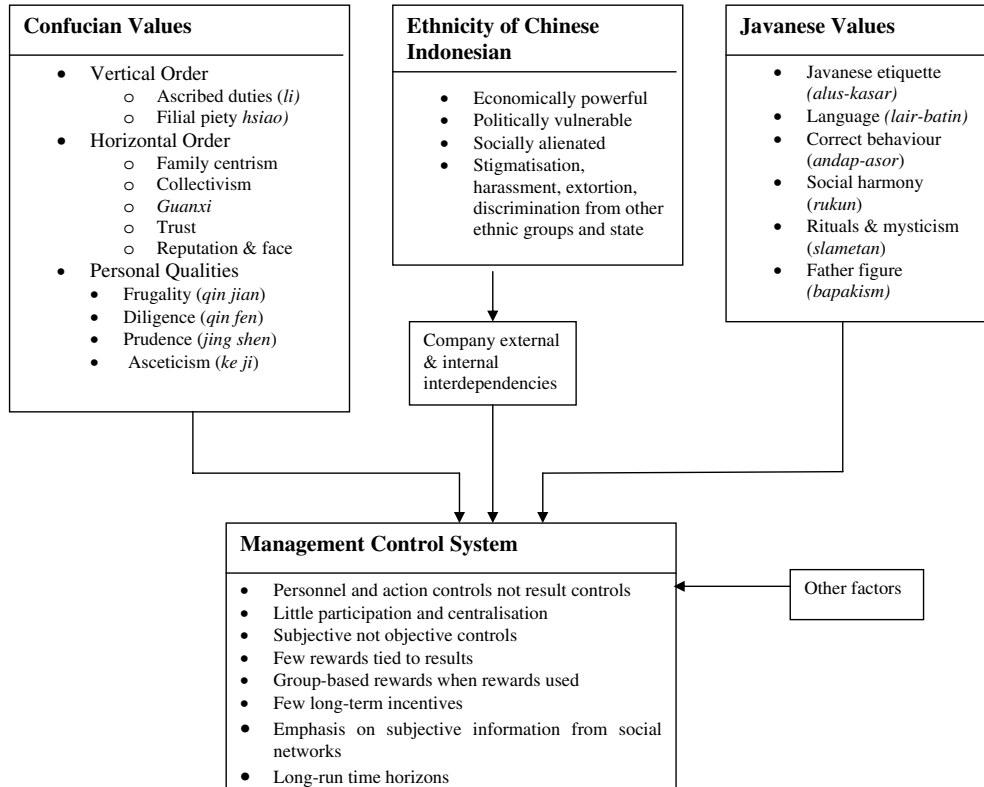


Fig. 1. Management control in a Chinese Indonesian business.

eralisation exist but they are created and sustained in social interaction (Scapens & Macintosh, 1990, 1996). They are subjectively created and sustained and are capable of exception, change, and contestation. They are not ‘laws’ as nomothetic cultural contingency research might imply. We question Bhimani’s division of possible research methodologies to study culture between nomothetic and ideational on philosophical and practical grounds for whilst it may be useful for expositional purposes it is invalid for, as Bhimani points out, once contingency research embraces ideational notions associated with culture it enters an ideational terrain. However, we also reject versions of grounded theory that restricts ethnography to rich descriptions of observations on a particular site (see Alvesson & Skoldberg, 2000; Silverman, 2004). As Bourdieu, Chamboredon, and Passeron (1991) note, ‘Social science must *create its own social concepts* formed in an entirely different purview than the

notions and frames of reference of the everyday world’ (quoted in Alvesson & Skoldberg, 2000, p. 33). Thus categories and relationships of cultural contingency research may be useful for comparative analysis but they need corroboration from field data, relating to action, not be seen as absolute or necessarily persistent, and be open to new elements. Treated in such a manner cultural contingency work can form part of ‘integrative ethnography’ (Baszanger & Dodier, 2004) consistent with anthropologists’ and sociologists’ arguments that understanding phenomena requires an iteration of etic and emic views (Scupin, 1998; Smith & Young, 1998; Wilk, 1996).

Data collection and analysis

Gaining access was not easy: overseas Chinese businessmen are usually guarded about their companies and the research questions are sensitive in

Indonesia. To overcome this, trust and confidence between the researcher and the respondents needed establishment and personal networks pursued. Access in Friends Company¹⁰ stemmed from the principal researcher's previous involvement as an informal advisor to the company and friendship with the owners since 1988. This made him an 'insider' with empathy and access to the owners and managers, facilitated social interaction in natural settings, and enabled him to participate in work activities. It gave a deep understanding of the firm's activities, personnel, and physical infrastructure, and revealed factors that pass unnoticed by other research methods.

Ethical considerations were important. To ensure participants' willingness to participate and to protect them; confidentiality and anonymity were guaranteed; a tape recorder was used only with permission; and the researcher disclosed to respondents his true identity, research purposes and how the findings would be disseminated.

The field researcher's Chinese Indonesian ethnicity had strengths and weaknesses. It sensitised and gave him access to emic views of Chinese Indonesian businessmen on sensitive matters. Good access is difficult without prior social relations and reciprocity. Feedback on MCS systems was an entry condition. The owners were conscious of their lack of modern managerial knowledge and wished to use external advice where appropriate. During the research a consultant was employed to improve organisation structures and systems of accounting but the owners would ask the researcher, who had no specific assigned duties, for comments on this and other matters. The owners however decided whether to act accordingly. Spradley (1980) identifies four modes of participant observation ranging from non-participative passive to active involvement. The former helps maintain research objectivity but limits insights from social engagement. The research was inclined to 'moderate' participant observation rather than 'action' research to balance participation and observation, be an insider and an outsider

(Spradley, 1980); and prevent participation diluting critical analysis (Hammersley & Atkinson, 1995).

The owners and key employees fully supported the research but the researcher's ethnicity and entry via the owners was a barrier with *pribumi* blue-collar employees, who were reluctant to be interviewed for fear it might affect their jobs. Hence, data about them came mainly from casual, friendly conversations and interviews with external Javanese figures and, to offset possible researcher bias, Javanese researchers were trained to follow a rigorous research protocol involving the second non-Chinese researcher to collect data from *pribumi* employees. However, events from a *pribumi* perspective are not presented. The principal researcher's position within Friends, his involvement in its affairs, and his ethnicity and values probably skewed his behaviour and interpretations of events towards the Chinese owners' perspective (Hammersley & Atkinson, 1995). The study is not objective in a positivistic sense. Its objectivity lies in its openness, willingness to listen and observe, and representing respondents' views as accurately as possible by diligent fieldwork and analysis (Strauss & Corbin, 1998).

The fieldwork lasted 1 year. Data came from interviews, documents, and participant observations (Mason, 1996; Spradley, 1980). Repeated semi-structured interviews, i.e. "conversations with a purpose" (Burgess, 1984, in Mason, 1996) were held with the four owners and key employees, including the consultant. Further interviews were held with five Chinese businessmen from other companies, four *pribumi* businessmen who deal with Chinese businesses, and a *pribumi* Islamic intellectual. Initial interviews sensitised the researcher to issues for exploration in subsequent interviews. Interviews with the Chinese owners explored ethnicity, control, Chinese social identity, social vulnerability, solidarity, family welfare, what organisations mean to them, personal values, and their future. The management consultant and the Chinese businessmen gave insights into management in Chinese companies. Trained *pribumi* research assistants conducted some interviews with *pribumi* businessmen and the Islamic intellectual to encourage frankness about *pribumi* perceptions.

¹⁰ For reasons of confidentiality the names of the company and personnel have been changed.

Questions during interviews and observations helped open up lines of enquiry and direct theoretical sampling. All interviews, observations, and documentary analysis were in Indonesian and interviews were tape-recorded and transcribed. Documents studied included charts of accounting systems and procedures, associated reports, manuals and documents, budget forms, the cash book, and financial statements. The researcher had full access to these and they provided an initial understanding of work processes but analysis of interviews and observations transpired to be more important for formulating findings. Field notes written during or immediately after each session about the situation, discussions, and native phrases and terms were cross-checked with interview data to promote balance and improve data reliability and validity.

Data analysis consisted of transcription and microanalysis (Strauss & Corbin, 1998, Chapter 5). Microanalysis (see Appendix) helped generate concepts and relationships at the outset, identified and linked native terms and beliefs, guided further interviews and observations, constructed explanatory statements for comparison with data categories and relations in previous research, systematically coded them into categories with a central idea, and finally integrated them into a model. Preliminary results formulated questions for subsequent interviews and the focus of subsequent observations. Interrelations between data categories and explanatory statements of relations (what, when, how and why) between them were constructed. Data categories were derived from the theoretical issues of the study (result control, action control, personnel/cultural controls, Chinese and Javanese cultural values, ethnicity, technical aspects of organisational activities, history of the company and its environment). Those procedures were often conducted simultaneously with no rigid, clear-cut boundary between them, and categories and linkages were constantly refined and modified to ensure the final categorisation adequately reflected data.

Concepts and their relationships were then systematically coded. Similar concepts were grouped within a category with one central idea. Once identified a category became easier to remember and to

develop by breaking it down into its subcategories (when, where, why, how, and so on), and finally integrate the major categories into a model. Details of the coding and their explanation and justification are given in the Appendix.

Theoretical sampling tested the internal consistency and completeness of the model. Constantly comparing concepts against field data revealed variations among concepts, made categories denser, verified and confirmed links between the categories/concepts being developed, and developed new lines of enquiry and theory evolution. Sampling did not necessarily entail gathering new data: returning to old transcriptions/memos was sometimes sufficient. Sampling continued until categories were saturated, i.e. no new or relevant data emerged, variation in categories' dimensions and properties were well demonstrated, and relationships between categories were established and validated. Reaching absolute theoretical saturation proved difficult as new data continually emerged but the major grounded concepts and interrelationships proved robust.

Friends company

Brief history

Friends Company is situated in an industrial park in East Java. It is owned by four shareholders: Mr. O, Mr. W, Mr. H, and Mr. A. It produces plastic sheets in rolls or forms such as plastic bags/sachets, inner layers of paper bags and appliances for industry and households. Customer requirements vary according to materials used, sheet dimensions, colour, bundle, model (with or without handle) and weight. Selling prices are based on weight and specifications.

Friends was established in June 2000. Its previous owners for 30 years, Mr. Ed and his father, had grown the company from 20 to 250 workers by 1994–1997. Mr. Ed is a 56-year-old *totok* Chinese Indonesian with no formal education beyond Junior High School. He used traditional Chinese family business practices, spurning modern management techniques. There was a simple organisational structure, a strong paternal culture, and

centralised decision making – the owner subjectively assessed performance and determined salaries. In 1998–2000 the firm experienced cash flow problems: management could not cope with expansion and a customer defaulted on a large bill. Employees decreased to around 150 and in 1999 Mr. Ed offered his company for sale. An intermediary introduced Mr. Ed to Mr. O, who convened a meeting with three of his closest friends, Mr. W, Mr. A and Mr. H. In May 2000, the four friends purchased the firm.

They introduced modern management, aggressive marketing, recruited new employees, and immediately hired a management consultant, Mr. L, an old friend of Mr. A, to establish a new accounting system and organisation structure. They invested in machine repairs, maintenance, some new machines, factory enlargement, and redesigned layouts. Maximum production capacity was 46.7 tons/month but in June 2001 usable capacity was only 22 tons. Monthly sales were circa Rp 190,000,000 (£15,417). Production is labour-intensive and there are three 8 h shifts. Production costs were direct materials – 50%, direct labour – 40%, and factory overheads – 10%. Friend's total assets in the June 2001 report are valued at Rp 5.5 billion (£458,300). There were 190 factory workers and 25 staff.

Fig. 2 details Friend's organisational structure. It has three main responsibility centres: Marketing, Manufacturing, and Finance and Accounting (F&A) Divisions.¹¹ Manufacturing is a cost centre. Mr. H is the director responsible for production, delivery, scheduling, maintaining machines and factory facilities, inventories, and recruiting manufacturing employees. Marketing is a revenue and expense centre. Mr. A is the director. It determines selling prices, sales terms and conditions, marketing strategies, sales training, sales incentives, and liaises with Manufacturing over delivery times. F&A is a discretionary expense centre. Mr. W, the President Director, is its director. It supports the line with mainly non-financial data, administers petty cash, processes cash receipts and pay-

ments, provides financial information to the owners, and protects company assets against fraud. Its responsibilities are not quantifiable so performance is judged qualitatively.

Production processes are simple and well understood. In contingency theory parlance there is low task uncertainty. All production is job order: customers' requirements determine product characteristics – variations need different inputs and completion times. Extruders process plastic ores into plastic rolls despatched to buyers or processed further. Scrap and defects, which can also be purchased externally, are recycled into lower quality plastic ores and re-used, which enables selling prices to be modified. Mixing new and cheaper recycled plastic ores reduces costs more than minimising waste but excessive defects and scrap indicate waste of new ores or over-use of recycled materials. Production volume per shift influences unit costs as workers' wages are time not output based.

The market for Friend's products is large for plastic sheets have diverse uses in households and industry. About 90% of Friend's sales are to industry: the remainder is to independent wholesalers. Five large companies (including Friends) in East Java compete for large orders but many small firms compete for small orders. Friend's market is characterised by a concentrated and longstanding customer base (mainly 10 big companies); revenue determined by order size not frequency; and few competitors. Bargaining power with customers is weak: losing one significantly reduces revenue.

Social backgrounds of organisational members

The four owners (messrs. O, W, H and A) and two senior employees (Mr. U and Cik K) play key roles. Mr. O is a 35-year-old bachelor from a rich *jiaosen* Catholic Chinese Indonesian business family with an MBA in finance from a USA university. He is not formally involved in Friend's management but attends meetings involving strategy: the other shareholders hold him in high esteem as he is an experienced manager. Mr. W (28 years) and Mr. H (32 years) are brothers from a rich, *totok* Catholic Chinese business family. Their father has several businesses and both were raised with strong Chinese values. Mr. A is a 28-year-old bachelor from a prosperous *jiaosen* Cath-

¹¹ *Division* is used by Friends instead of *department* and is used accordingly here.

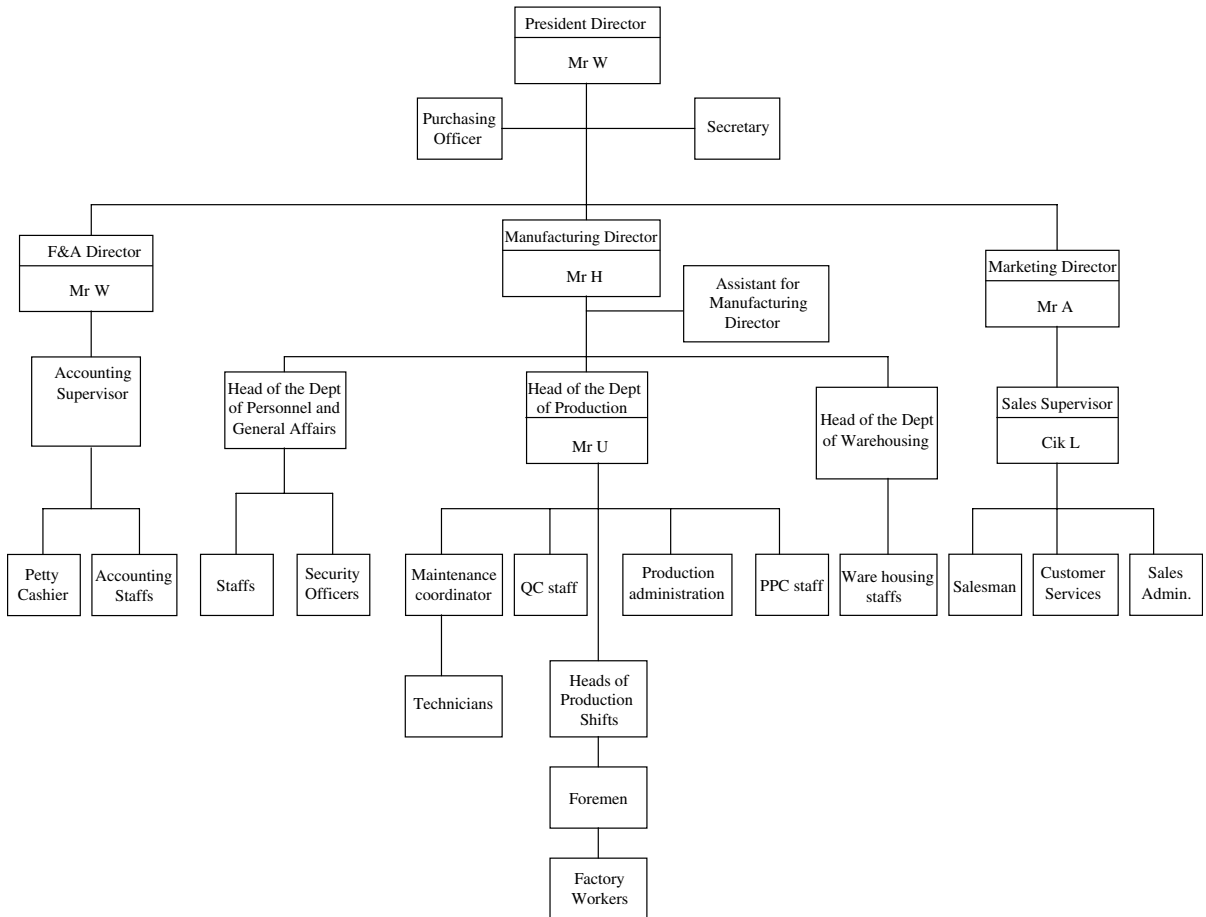


Fig. 2. Friends company–organisation structure.

olic Chinese family who did not finish his undergraduate degree. The four owners have been close friends from high school or university whence many business relationships among Chinese Indonesians stem. Knowing a person's character is a prerequisite for developing trust and business relations, as Mr. H and Mr. W commented:

“All partnerships begin from friendship ... We must understand the personalities of our intended partners. If we are not assured, probably the relationship will be limited to mere friendship.” (Mr. H)

“We have known each other for more than 10 years. ... Our characters match, we are all *cengli*, and we can give in to each other.

We want to be very prudent in choosing partners. Trust must be developed first before all else. Only after getting close, can we decide to do business together. In fact, we met with many other people during that period of 10 years. Yet, we feel that they do not match our criteria.” (Mr. W)

The other two key players, Cik K and Mr. U, joined Friends in the Mr. Ed era. Cik K (the senior marketing supervisor) is about 40 years, unmarried, and from a middle-class but not wealthy *totok* Chinese family. She is a senior high school graduate and has worked in Friends for 17 years. Her nickname, *Cik K*, denotes employees' recognition of her seniority, authority, and social rank. She is well

known to important Chinese competitors, buyers, and suppliers, and respected in their *guanxi*, sometimes being almost a family member. She remains an important business contact. Cik K played a vital role in saving Mr Ed's business when it was near bankruptcy. She spoke to suppliers on behalf of Mr. Ed and guaranteed payment. The suppliers trusted her and continued to supply materials, which enabled Mr. Ed to repay his debts.

This reveals four important points. First, the importance Chinese, external and internal to Friends, attach to integrity, trustworthiness, loyalty and expertise: without this Cik K's guarantee would not have been valued, nor would the new owners have taken pains to retain her. Second, the importance Cik K plays in the *guanxi* of this business, which will not be forgotten. Third, the high value placed on trust by Chinese businessmen: when Cik K gave her guarantee she gave no money, written assurance, or valuables as a pledge. Her word was enough. Fourth, how in a Chinese company personal and business relationships are inseparable, especially if the employer maintains kinship-like relations. Cik K regarded Mr. Ed not only as her formal superior and employer but also as a senior family member whom she must respect and obey, consistent with Confucian values of *hsiao*. For Cik K, working in Friends not only meant pursuing a career but also respecting her long relationship with Mr. Ed.

Mr. U, the head of the production department (circa 38 years) is a nominal Moslem from an economically comfortable Bugis–Banjar¹² family. He has an MBA from a Jakarta university and has worked 6 years for Friends. Previously he was a manager in a bank, which acquainted him with Chinese businessmen. Mr. Ed was his customer for 4 years and a formal business relationship changed into friendship. The Indonesian government liquidated the bank and, following a chance encounter, Mr. Ed recruited Mr. U to handle production and worker affairs. The company was beset by strikes as workers went unpaid due to financial difficulties. Mr. U calmed the situation and got Mr. Ed to hon-

our workers' rights. Subsequently no significant disputes or strikes have occurred.

Pribumi workers considered Mr. U as their *bapak*. Although Mr. U is not Javanese, employees felt stronger emotional and social ties with him than the owners because they believed he was *pribumi* and thus would guarantee fair treatment from the Chinese owners. The owners needed Mr. U to secure *pribumi* workers' loyalty and effort, as Mr. O recognised:

“We need Mr. U because he is our mediator in dealing with the workers. He looks intelligent and *cengli*. Yet this means that he has the capability to provoke them for his own interests. . . . In the future, we have to be able to control him so he will not turn against us.”

Thus the owners saw Mr. U as an important but potentially dangerous employee. Given volatile Indonesian politics and the history of *agent provocateurs* in Chinese companies he could exploit his influence over workers to mobilise ethnic clashes. The owners co-operated with Mr. U whilst simultaneously trying to reduce their dependency on him.

The organisation structure (see Fig. 2) reveals four management tiers: top management consisting of the President Director and divisional Directors; the middle-level consisting of five supervisors; the lower-level consisting of staff in the F&A, Manufacturing, and Marketing Divisions; and the bottom-level comprising security officers and factory workers. For convenience, bottom-level employees are called *blue-collar* and the remainder *white-collar*.

Differences in ethnic identity, gender, education, and religion permeate divisional membership. Only three Manufacturing employees are Chinese – all senior managers with a degree. There are 46 male and 155 female employees but all 11 senior managers are men. Only four *pribumi* employees – all senior managers – are educated beyond school. The women have particularly low education – junior high or below. All employees are Moslems apart from seven Christians, none of whom are shop floor workers. Most Manufacturing employees are *pribumi* (mainly Javanese), female, not educated beyond junior high school, and Moslems.

¹² Bugis and Banjar are predominantly Moslem *pribumi* ethnic groups. The Bugis were originally from Southern Sulawesi and the Banjar from Kalimantan.

In the Marketing Division there are five Chinese and two *pribumi*. All have tertiary education except Cik K. There are four Christians, a Buddhist, an unknown, and a Moslem. In the F&A Division there are three Chinese and three *pribumi* – all Christians with tertiary education and, except for the Director, women. White-collar employees have similar religions, minority identities, schooling, educational attainments, and attitudes, which made communication easier and reduced ethnic tensions.

In summary, there are few Chinese and Christian employees (5% and 7.5%, respectively) but top management is their preserve: none are employed in bottom level jobs. Males and tertiary educated personnel are a minority (25.7% and 8.9%, respectively) but they dominate top and middle management positions and most supervisory ones. In contrast, blue-collar employees are *pribumi*, mainly women, almost all Moslems, with modest education. There is a high correspondence between ethnic identity, religion, education, hierarchical level, and formal authority. In Friends, Chinese means being Christian, educated, senior management, and well rewarded.

Most *pribumi* workers had negative stereotypes of Chinese employers as wealthy but unscrupulous and cunning opportunists prepared to do anything for profit. They claimed ethnic exploitation was common in Indonesia and working hard only benefited the *Cino*. On the other hand, the owners worried that *pribumi* employees would extort them if not properly controlled. Ethnic antagonism was exacerbated by the Indonesian economic crisis. Friends paid wages above government rates and honoured workers' legal rights but wages were deteriorating in real terms, partly because market prices for plastic sheets had risen less than inflation. This increased workers' resentment, created motivational problems, and increased Friend's exposure to strikes. Workers suspected the owners used economic excuses for ethnic exploitation.

The company's MCS

Data on control was analysed using etic categories of result, action, and cultural controls and

related to Chinese and Javanese cultural values (see Fig. 1), ethnic tensions, modern management, and business pragmatism.

Result control

Result controls existed in three areas: budget setting, sales targets, and production defect and scrap rates.

Setting budgets

Meetings of the four owners, occasionally Mr. L (the management consultant), and Mr. W and Mr. H's father, established budgets and targets by consensus. The importance of budgets for controlling operations varied. The sales budget was crucial as it determined overall performance. Other budgets were used to predict working capital requirements: the emphasis lay on financing and planning rather than management control. The father advised on Indonesian politics, economic developments, workers, technical matters, and their likely effect upon plans. The owners took heed because of his experience and their respect for filial piety (*li*) within family-centric businesses. The owners would use conventional, modern, MCS practices but how was influenced by culture, ethnic problems, and business pragmatism.

Politics and economics are intertwined in Indonesia (Coppel, 1983; Heryanto, 1997, 1998; Robison, 1986). Government stability affected riots against Chinese businesses, exchange rates, and inflation – all critical to Friend's sales. For example, in 2000 exchange rates fluctuated from Rp 7000–11,000: \$US1 according to presidential succession conflicts, legal actions against members of the previous regime, and religious and ethnic riots. A depreciating Rupiah increases many prices with demand consequences. During the New Order era an authoritarian state guarded business stability and business flowed from good relationships with it, but Soeharto's fall changed this dramatically. The current political situation, whilst less discriminatory, remains volatile. Reformists' demands for New Order members to be tried for political and economic crimes can provoke mass riots. Given the history of anti-Chinese attacks there was anxiety that dissidents would hire

provocateurs to provoke strikes or attack Chinese properties to fuel national chaos.

The owners' network or *guanxi*, often based on discussions in pubs, restaurants, or golf clubs, provided crucial information on Indonesian politics and the economy. Friends' owners checked, discussed, and reconfirmed predictions with friends prior to budget meetings. The hostile environment invoked solidarity amongst Chinese Indonesians, fostered the *guanxi* as a medium of information exchange, and reinforced the owners' predilection to act according to *personal trust*.

Both *totok* and *jiaosen* Chinese used the *guanxi* for self-protection, albeit differently. A Chinese senior management consultant noted:

“There are two types of Chinese business: traditional Chinese and modern Chinese. The former emphasises family networks whereas the latter emphasises social networks from church or other associations.”

Nevertheless, every business and family group had its own *guanxi*: when linked to friends' *guanxis* they were extensive. Becoming a member is not easy: it requires at least one member's personal recommendation and a record of trustworthiness and reliability. Once accepted, a member enjoys favourable treatment and support but loss of trust makes transacting with other Chinese difficult. Reputation must be protected and promises be honoured. A Chinese businessman illustrated this:

“Once, we delivered goods to our buyer. He checked everything and received them but when he wanted to use them the goods started discolouring. We cannot say, ‘You have checked and signed the delivery order’, although legally we can do so. Finally, we negotiated how we would share the loss. This was the etiquette adopted to create trust so we get repeat orders from them.”

The *guanxi* helped find credible suppliers and buyers, finance, trustworthy employees, and business partners, provided information and help, and reduced exposure to the state.

Once political trends were determined, their budget ramifications were translated into technical

considerations such as: types of orders to pursue, likely competition, which ores to use, capacity, likely performance, and production costs. Output targets were derived from four budgets: sales, production, direct material purchases, and marketing and general expenses. Key performance indicators were sales growth, product costs, productivity, and quality. Budgets incorporated three scenarios – optimistic, medium, and pessimistic. The sales budget was broken down by product and customer type over time and by machines used (new or old). The production budget was more problematic: standard costing was impractical due to the multiple product dimensions, though labour and overheads were relatively fixed. Hence the emphasis on scrap and defect rates as a surrogate for material usage control.

All directors discussed each budget and decisions required unanimity. There was no division according to divisional roles, no hint of budgetary slack, or any manipulation of divisional performance results because budgets were about ‘family’ money and *chung* (sincerity and honesty) was taken for granted. However, such data did not pass beyond the inner group. Behaviour was consistent with collective values, *qin jian* (frugality) and *jing shen* (prudence and thinking ahead). Variances were investigated in a spirit enunciated as, “We are all new in this business, so let's learn together and support each other”. Goal congruence, personal trust, informality, and family collectivism were important. Friendship prior to being business partners was essential and simplified budgeting. Budgets were only used for delegated control with respect to sale and scrap rates.

Sales targets and commissions

The sales target, derived from the sales budget, was important. Mr. A gave each salesman a monthly sales target derived from the medium level budget. Every Saturday he discussed weekly results and problems with Marketing employees. A monthly formal performance review was normally symbolic because problems were picked up previously. More than 50% of the salesmen's income came from commission based on individual sales to motivate order maximisation. Mr. A

gave lower monthly commission based on aggregate sales to other Marketing employees to promote co-operation, sales support, and client service but fixed salaries formed most of their income. Only salesmen were punished for not reaching targets. If monthly targets were unmet, salesmen could recover by meeting their 3-month targets or, failing this, their 6-month targets. If this was not achieved the formal rule was dismissal, though this was the owners' prerogative. Ethnic antagonisms between employees and owners were low in Marketing and there was minimal conflict over commissions.

Production defect and scrap rates

Manufacturing costs were critical – they constituted the bulk of costs. The owners scrutinised production volumes, the direct material purchases budget, material price and mix variances, and production defect and scrap rates but only production defect and scrap rates were passed down as operational targets. Delegated output targets and associated rewards were technically difficult due to the lack of a standard product.

Scrap was pieces of plastic sheets not delivered to customers. The standard rate (0.5% per batch) was derived directly from the budget. Scrap rates were checked at the end of each batch. Excess scrap indicated worker carelessness in setting-up machines or faulty machines. No rewards or sanctions were tied to scrap rates: they merely helped prevent workers stealing scrap.

Product quality, essential for customer satisfaction and repeat orders, was measured by production defects. Mr. H transmitted defect rate targets set by the owners independently of the budget to the production head (Mr. U) who relayed them to foremen and workers. Constant deviation from normal rates indicated problems with workers, machines, or material quality (the purchasing officer's responsibility). Quality control staff estimated defects by end of batch sampling and, if above 2%, reworked batches could be demanded. Weekly and monthly defect rate reports went to the President Director (Mr. W) and Mr. H. Defects above standard brought a penalty of Rp 2000 per kilo levied on the Manufacturing Direc-

tor (Mr. H), the production head (Mr. U) and workers responsible for the defects. Mr. H and Mr. U were penalised to show divisional members were treated equally but workers carried the bulk of the penalty.

Penalties needed sensitive handling to prevent blue-collar employees perceiving them as wage reductions and ethnic discrimination. Mr. U, being the workers' *bapak*, became a guarantor of management's good intentions, as he elaborated:

“A financial penalty is effective since it directly affects their daily income. The only thing we have to be careful about is the amount and the way we explain it. They will not resist if they make mistakes. We need to teach them how to be disciplined and accountable.”

Mr. U explained to workers how improved product quality would improve Friend's future, jobs and wages, and he promised penalties would not be extortionate. The owners' reliance upon Mr. U¹³ contravened their preference for appointing close, trusted colleagues, often family, known to be loyal, sincere and honest. Their dependence on him meant they had to sacrifice values of patrimonial, autocratic management, and sharply demarcated employer and employee responsibilities. Similarly, applying financial penalties to Mr. H because of his functional responsibility violated the owners' values of collectivism, shared responsibility, and vertical order (*li* and *hsiao*). Chinese values had to be modified in the face of ethnic tensions.

Thus the owners used result controls for critical variables especially in sales and production. Academics are highly respected in Indonesia and the owners, who believed their knowledge of modern managerial techniques was limited, often sought to discuss such issues with the researcher. They frequently mentioned the need for professional management using modern techniques such as budgets, performance-based rewards, and reliable accounting information.

¹³ After the research Mr. U left Friends to work again for Mr. Ed. Since then a *pribumi* personnel officer has struggled to maintain control of production workers.

Result control in production was difficult as a standard output could not be ascertained and material purchases were subject to currency fluctuations and some customers supplying their own raw materials. Nevertheless, the owners did not extend budget participation beyond their inner circle and their *guanxi* due to values of patrimony and familial control. Subjective political considerations initially predominated budgeting though the conclusions were translated into detailed budgets. However, ethnic tensions affected employee's perceived legitimacy of controls – hence the owners had to work through the *bapak*, Mr. U, and subject Mr. H to penalties for production defects, in violation of their beliefs that owners' responsibilities were collective. The owners were not averse to implementing delegated result controls but they had to accommodate a complex mix of interacting factors. Pragmatic and commercial reasons could coincide with cultural values but enacting the latter could be inconsistent, for example delegated result control may violate patrimonial values but be congruent with frugality (*qin jian*) and seeking knowledge and wisdom (*qin fen*). Control practices needed adapting to commercial considerations, technologies, customers, the legacy of employee relations left by Mr. Ed, local politics, ethnic tensions, and desires to incorporate best international business practice as well as cultural beliefs.

Action control

In Friends action control was enacted through the accounting system (behavioural constraint and pre-action review), authority limits for determining selling prices (pre-action review), and action accountability.

Accounting system

Accounting systems prohibited certain employee behaviour. Formal procedures for production orders, production controls, billing, issues of cash receipts, payroll, purchasing and receiving, and bank and petty cash disbursements were designed to prevent fraud. As Mr. W observed: "We cannot just rely upon employees but if we don't believe in them and delegate our authority we cannot work as well. Hence, we need a system

to secure us." Standardised procedures and document flows across major transaction cycles (selling, purchasing, cash receipts, and cash disbursement) separated functions (custody, recording, checking, and approval) across the three owner/managers.

The accounting system programmed behaviour through rules and procedures but financial control was not delegated. Rather than leaving financial stewardship to 'unknown' professionals, the owners monopolised critical financial functions such as approving bills and purchases to personally protect family assets and cement ties of *personal trust* and protect their reputation with customers and their *guanxi*. However, outside inner circles the accounting system was designed to protect resources in a climate of distrust. Mr. L, the consultant who designed Friend's accounting system commented: "The most important thing for them is to avoid being cheated by their employees. They are so worried about this." The accounting system evolved in a context of ethnic prejudice and suspicion, as Mr. H noted: "Dealing with (blue-collar employees) is tricky. I don't want to be over-sensitive but this system enables us to secure our interests and avoid unnecessary confrontation." Mr. Ed had relied on spasmodic personal surveillance for internal control, which resulted in a major fraud. The current owners wished to avoid this by adopting accounting procedures that suppressed ethnic distrust by appearing neutral, objective, and administered discipline and tidiness regardless of rank or ethnicity. Such a bureaucratic control system was culturally legitimate for owners and employees alike. The owners realised they could not rely on traditional, Chinese family business practices like trust and informal transacting exclusively. Their financial caution combined Chinese values of frugality and money consciousness (*qin jian*), and prudence/thinking ahead (*jing shen*) with business pragmatism.

Authority limits in determining selling prices

Each salesman had limited discretion to negotiate selling prices. If a customer's wanted a price less than the salesman's discretionary limit he needed approval from Cik K – the marketing supervisor. If the price was below her discretionary limit (which was higher) the transaction went to

Mr. A who had no limit. If he was unsure, which occurred frequently with large orders, he secured a consensus decision from the owners. Thus, bureaucratic rules provided limited delegation within Chinese cultural preferences for formal managerial hierarchy and collective decision-making by owners. Formal limits of authority on employees reconciled distrust of outsiders with pragmatic recognition of needs for constrained delegation. Individual authority and responsibility, and performance evaluation of owners acting as divisional managers was irrelevant due to the owners' collectivist values and mutual *personal trust*.

Action accountability

Elsewhere definitions of acceptable action lay in unwritten, shared understandings of Friend's members. Employees were expected to obey owners' orders, be loyal, i.e. show filial piety (*hsiao*); be diligent (*qin fen*), helpful, and above all, trust the wisdom and prudence of the owners (*jing shen*), demonstrate honesty by being truthful and sincere (*chung*), and elevate company interests above personal goals and accomplish assigned duties (*li*). These expectations had cultural legitimacy with owners and employees alike.

For the owners this derived from Chinese values of respecting vertical order (*li* and *hsiao*). Mr. W commented: "If there is a highly trustworthy, loyal, committed and capable person, he will be our right-hand and be given more authority. Such an employee is ideal." Chinese employees shared expectations of filial piety (*hsiao*) due to their Confucian parental education. For example, Cik K commented:

"One has to serve one's master as best as one can. In the past, my mother worked for a company and she also did her best. When Mr. Ed had problems with the workers in the past he was taken to the Bakorstanas. I was there with him from 11 a.m. till 2 a.m. the next day. He was the only one interrogated by the officer but I was there to help him as best as I could. ... Employees' skill is important. However, I always observe which one of them is ready to lend a hand

to his colleagues. ... Even if a duty is not formally mine, I don't mind helping them outside working hours."

According to traditional Chinese management values authority stems from personal ownership – not written, binding agreements. Constraining behaviour by codified rules contradicts both Chinese and *pribumi* employees' belief that delegating authority and responsibility is the employer's privilege, so employees never sought written job descriptions. Given the ethnic antagonism of blue-collar employees the owners were wary of doing so. Mr. U commented: "They don't need too many formalities such as a written job description ... [employees] may use it as a weapon to neglect their responsibilities. ... Instead of promoting order you may get more trouble and conflict." The symmetry between Javanese values of *bapakism* emphasising loyalty and obedience of servants and Chinese values of vertical order meant owners and *pribumi* employees had common cultural expectations regarding performance, written job descriptions, and rules.

The owners' direct monitoring of employee behaviour was largely confined to white-collar employees – observing blue-collar employees was impractical due to their number and ethnic tensions. Mr. U and worker informants were a crucial source of information on Manufacturing employees' behaviour: they were the eyes and ears of owners in the factory. They reported which employees were obedient, loyal, honest, and skilled, and they relayed ethnic tensions promptly so precautions could be taken quickly. Workers trusted Mr. U as their *bapak* and relayed their aspirations and complaints to him. Mr. H also cultivated personal relationships with informants – experienced blue-collar employees with proven loyalty to the previous owner, who often gleaned sensitive information. Often Mr. H relied more on their observations than supervisors' reports. The owners' reliance on Mr. U and worker informants contravened their preference for relying on trusted people but, given mutual distrust between *pribumi* workers and the owners, and the practical constraints on personally exerting action control, they were pragmatic in sacrificing core values.

During Mr. Ed's ownership there was no standard incentive scheme. His arbitrary determination of wages produced discrepancies between new and old employees' salaries that compounded employee perceptions of ethnic discrimination and little connection between effort and rewards. Both blue- and white-collar employees suspected that Mr. Ed favoured Chinese employees. Mr. U confirmed this when explaining why so many strikes occurred:

“During the era of Mr. Ed the ethnic discrimination was very apparent, especially in terms of salary. ... There was a Chinese employee in the production department. He received Rp 1,000,000 for his first salary while my first salary was only Rp 400,000. Many employees asked me: ‘Look at him, do you accept this?’ The ethnic gap is much less now and this is more effective for controlling employees.”

The new owners systematised salaries according to position, length of service, dependants and achievement to promote perceptions of fairness. Workers' salaries now consist of the main salary based on government UMR policy, a night shift premium, length of service, and a skill allowance,¹⁴ paid on daily attendance. Wages of other blue-collar employees (heads of shift, technicians, and foremen) comprise the main salary (standardised below junior management salaries) and allowances for length of service, dependants, and skills.

White-collar employees received their main salary plus allowances for length of service, dependants, and achievement. Standard wages between Divisions varied and, except for achievement allowances, across management levels. Achievement allowances were based solely upon the owners' subjective judgment. Salesmen also received a transport allowance and, like other Marketing staff, sales commission. In addition, employees received an annual incentive called *Tunjangan Hari Raya* (THR) on their main religious days. Moslem employees and factory workers receive this before the *Eid-Al-fitrelIdul Fitri* celebration (usually the

end of Ramadan) and non-Moslem employees before the Christmas/New Year holidays. THR levels for factory workers are regulated by the government: for other employees it equals a month's salary and allowances.

Deviance brought punishment though white- and blue-collar employees were treated differently. White-collar employees were initially rebuked verbally by their superior who, if ignored, would tell the owners. Cik K, as patron of white-collar employees, determined whether Marketing and F&A employees had responded properly and whether the owners should issue a final warning. Normally, as she pointed out, she would rectify problems personally:

“At first, the salesmen ... stayed in the office and made calls to prospective customers. They would go out only if they were sure that the customers wanted to buy something. Then, I was angry with them: ‘There is no way customers want to buy something unless you see and approach them seriously face to face so you can see their reaction clearly’. Since then they have become more active in approaching customers.”

The owners did not normally admonish blue-collar employees. The first warning came from their superior (normally a foreman). If unheeded the matter was referred to Mr. U who administered another warning. Workers who argued with supervisors were scolded. Mr. U reported unresponsive recalcitrant workers to Mr. H who rarely administered verbal punishments. He would check why the dispute occurred and dismiss employees deemed unsatisfactory. The owners' reliance upon Mr. U ran counter to their values but only he could verbally punish blue-collar employees without provoking ethnic tensions: the owners had to cooperate with Mr. U to exert discipline in the factory.

Verbal warnings and rebukes have similar connotations for Chinese and *pribumi* employees due to their paternalistic cultures. Early warnings are given indirectly and politely. If this fails a rebuke is given. At this point the employee's faults are perceived as almost intolerable and if no improvement materialises the only punishment left is dis-

¹⁴ The skill allowance is for the few workers able to operate extruders – an essential operation.

missal. For the Chinese, employee failure to respond to hierarchical authority (*hsiao*) and perform ascribed duties (*li*) is a serious insult. Javanese etiquette (*andap-asor*) emphasises using appropriate linguistic forms, *bapakism* entails obedience and loyalty of subordinates to superiors, and *rukun* stresses social harmony. If a superior admonishes using strong linguistic forms then the subordinate knows the severity of the situation. Verbal sanctions rather than formal controls had considerable significance amongst all employees.

Thus the owners replaced some personalised, rudimentary, centralised, and informal controls of Mr. Ed's 'traditional' Chinese management era with 'modern' systems recommended by the consultant, Mr. L. Later the owners and consultants systematised and formalised wages and rewards. Bureaucratic innovations to programme behaviour did not conflict with Chinese or Javanese cultural attributes and their objectivity and perceived fairness helped legitimate managerial authority by defusing ethnic tensions. Nevertheless, general expectations of behaviour resided in Chinese values (reciprocated in Javanese values) emphasising loyalty, obedience, honesty, and accomplishing assigned duties, rather than achievement. Financial systems reinforced this being procedural and not used for result control. Evaluations of white-collar workers' behaviour and ensuing bonuses derived from the owners' subjective assessments but this was impossible in production due to ethnic tensions, hence the owners' reliance on Mr. U, in violation of their cultural preferences. Like result controls, adopting action controls stemmed from a complex mix of factors.

Cultural controls

Cultural controls were used extensively. They embraced selective recruitment, creating divisions amongst blue-collar employees, building personal relationships, and respecting religious customs.

Selective recruitment

Formally, personnel were recruited through standard administrative procedures. Job applicants submitted application letters, CVs, and sup-

porting documents prior to short-listing for interviews. However, this was not invariably adhered to, and blue- and white-collar employees were recruited differently.

Selection criteria for blue-collar employees included relevant experience and skills but also personal character and religion. Mr. U sought submissive and obedient employees unlikely to inflame ethnic conflicts. Although Mr. U is a Moslem he was suspicious of graduates from Islamic schools and Javanese with strong Islamic backgrounds¹⁵ believing they misunderstood Islamic principles (such as fighting to spread the faith) and might provoke unrest. He was proud of his reputation for creating harmonious industrial relations and eliminating strikes, and he avoided jeopardising this. When recruiting local applicants Mr. U went to a local *warung* at lunchtime where a contact helped him ascertain whether applicants were suitable. He explained:

"I co-operate with a local criminal ... He interviews the local applicants. If it is OK, he recommends them to me and I do the next interview. ... I don't really know how the interview goes but if there is a problem ... the local criminal will rebuke him. He does not receive money from us and is not even formally employed by us but he is very proud of it. He thinks that he is a very important representative of this company for the local people and nobody can work here without his approval. ... We know many of the local people are criminals so we let local people do the selection."

In contrast, recruitment of white-collar workers was the preserve of the owners. Criteria included competency and skills, personality, and socio-cultural background (ethnicity, religion, and gender). The owners preferred Chinese for vital positions believing that their parents instilled respect for vertical order, maintaining trust, and they shared the owners' social vulnerability. Accounting positions were particularly important because the owners

¹⁵ This reflects differentiation between Javanese *abangan* and *santri* (orthodox-leaning Moslems). Mr. U believed an *abangan* was a more suitable worker.

valued confidentiality and preventing fraud. Purchasing was vital because materials were the bulk of Friend's costs: a dishonest employee might negotiate secret commissions with suppliers. Mr. W commented:

“I prefer to recruit *tenglang* as accountants since we are also *tenglang*. . . . Trustworthiness is an absolute prerequisite for working in accounting. All positions from supervisor level and above should be occupied by trustworthy employees. It would be better if they were all Chinese. . . . Why? Because . . . we have the same ancestors and we are the minority here.”

Recruitment of Chinese employees operated through the owners' *guanxi*. When a vital position fell vacant the owners asked friends and relatives to suggest candidates. If this failed they advertised in newspapers and those selected were referred to friends for comment. Recommendation from the *guanxi* was crucial, for example a Chinese Assistant to the Manufacturing Director was personally introduced and recommended by the owners' relatives.

Supervisor positions upwards were important because of their performance ramifications. The owners knew Chinese supervisors would encounter problems controlling *pribumi* workers so they appointed *pribumi* supervisors of *pribumi* subordinates. Personal recommendations from the owners' *guanxi* were valued for *pribumi* applicants to supervisory positions. If this was unavailable then religion and gender were important. The owners assumed non-Moslem *pribumi* were less antagonistic towards Chinese than Moslem *pribumi*, partly because in the New Order era Chinese children attended school with Christians. Generally female *pribumi* were considered more cooperative than male *pribumi*.

Dividing workers and building personal relations

Friend's recruitment practices were preoccupied with recruiting trustworthy employees who would not exploit ethnic tensions. Good relations with the local Javanese community provided protection against riots and crimes. Chinese fears of stigmatisation are not without foundation. Friends is in

an industrial area with a history of strikes and riots: during the May 1998 anti-Chinese riots the local community saved many factories from mass attacks, as a Chinese businessman confirmed:

“There was a riot in this area due to the election of a local village chief. Some factories were attacked . . . but I know one of the provocateurs. My workers also know the local people very well. During the riot they stood in front of my factory and it was untouched.”

During the New Order era Chinese businessmen protected their businesses through state agencies. Previously the military protected company assets and broke strikes by, for example, arresting workers' leaders.

“During Mr. Ed's time workers were kept in the dark and were not allowed to know about government regulations on workers' rights. If they dared protest they would be . . . fired or moved to another department. Mr. Ed often used military forces to suppress them but this did not solve the problem. Strikes were repeated for months. In the past, the military had absolute power and everybody was scared of them.” (Mr. U)

Following political reforms and the new democratic government such behaviour by military and state apparatuses ceased. Mr. H commented:

“Military symbols are no longer effective in controlling the workers. Instead of being obedient they will be very angry if we invite soldiers here. The soldiers are also aware of this.”

Friends now had to control employees itself – hence its emphasis on cultural controls.

Chinese values of *li* and *hsiao* and personal trust are similar to Javanese values of *bapakism*, *rukun*, and *andap-asor*. Common collective values normally increase employee cohesiveness and identification with owners but in Friends this was offset by ethnic tensions, especially with blue-collar employees. Consequently, Mr. U prevented group solidarity, close employee ties, and informal leaders emerging by constantly changing

shift membership. Cohesive groups may be productive but ones with hostile attitudes could create effective resistance and threaten workers' loyalty to him.

Yet simultaneously he and the owners cultivated personal relationships with employees to gain their loyalty, reduce ethnic suspicions, and exhibit welfare and care. The owners cultivated personal relations with white- and blue-collar employees differently. Mr. H, the Manufacturing Director, tried to build personal relationships with *blue-collar* employees. He recounted how:

"I use a personal approach towards the workers. I like to know their problems and make friendly jokes with them so that our relationship is more than merely formal employer and employee. I learned this from my father. ... Mr. U said that Mr. I is the most *juaji* person here and even a provocateur. He is a technician and has worked here for more than 27 years. Mr. U said he was dangerous and persuaded me to sack him. So I went downstairs and had a conversation with him. I found nothing wrong with him. He told me that his kidney was painful so I told him to go to the pharmacy and buy medicine, no need to go to the doctor, and we will refund the money."

Such behaviour, consistent with Chinese values of patrimonial leadership and reciprocity, enabled Mr. H to assess employees' behaviour, personalities and skills, and determine who had influence. This tallied with Javanese values of *bapakism* for a *bapak* must listen, and give sympathy, empathy, and advice on personal problems to gain personal loyalty, as Mr. U recognised.

"Workers are very demanding. ... We must follow their ways of thinking, listen to their personal problems, give advice, and use simple and understandable language to communicate with them. We become their counsellor for their personal problems such as the illness of a wife and the circumcision of a son but we must never be emotionally involved. ... A personal approach is much more effective than formal ways."

Mr. H used a friendly, informal and sympathetic approach with blue-collar employees, often paying compliments, which is important in Javanese culture: their proper use can stabilise and solidify superior–subordinate relationships. However, workers' ethnic suspicions and their complex expectations regarding appropriate speech stymied Mr H's attempts to divert their loyalty from Mr. U. Gaining affinity to Javanese employees requires knowledge of their culture, for example, appropriateness of words in replies influences attitudes. Also it can spawn complaints and demands, as Mr. U noted:

"During the Mr. Ed's time ... there was no mediator. As a result they pressed him and because he always did what they asked they asked for even more. They thought that Mr. Ed could be easily squeezed. Strikes took place very easily for trivial reasons."

Hence the owners continued to rely on Mr. U as a mediator.

How to relate to *pribumi* workers and whether to use mediators such as Mr. U preoccupied the Chinese Indonesian businessmen not in Friends:

"I inherited many problems from my father. ... If the workers needed something they talked directly to him and if my father did not grant it they would strike. My father's position was weak since he had no mediator."

"In my opinion we cannot treat them in an egalitarian way. The distance between superiors and subordinates must be preserved. ... (Otherwise) they will dare to argue with us. I once approached them personally in the past and they complained and demanded many things. However, they dare not do so with our production supervisor."

"The absence of a mediator does not produce problems in my company ... since we have emphasised from the beginning that all are equal here and we will not discriminate between superior and subordinate. We told them: 'Anyone who does wrong will be punished for their own benefit'. ... But we must keep our distance from them. If we

crack jokes with them too often they will no longer respect us, although occasionally making jokes or associating with them is important.”

Nevertheless, despite their differences on how to relate to *pribumi* employees, all the Chinese businessmen believed ethnic prejudices fostered by state stigmatisation of ethnic Chinese meant many *pribumi* employees viewed personal approaches by Chinese employers suspiciously. On the other hand owners must reciprocate expectations of care rather than merely exploiting employees.

Developing social relations with white-collar employees fell mainly upon the owners, especially Mr. W, who maintained personal, informal communication with Chinese and Javanese employees alike. Cik K was an important mediator between employers and white-collar employees. Her comments are pertinent:

“I know all of the (Marketing and F&A) employees personally. This is very important for making them open and honest towards us. ... The company has to take care of its employees so they will do their best for the company as a way of expressing their gratitude. The owners must realise that although they have a lot of money, they cannot buy everything with it. We can only buy loyalty with care.”

Religious, ethnic and educational bonds between white-collar employees and the owners made social relationships easier. In the factory, however, religious customs were sensitive. Any action construed as disrespect was deemed an insult but respecting customs brought positive reactions. The owners knew this and responded accordingly, for example regarding *slametan* and *Ramadan*.

Machines in the factory often broke down despite frequent repairs. Some workers attributed this to a *penunggu* caused by the owners not holding the ritual ceremony of *slametan* since acquiring the company. Following workers' requests a *slametan* was held in October, 2000, attended by a *kyai*, worker representatives, the three owner-managers, and Mr. U. It began with Islamic prayer led by the *kyai* and concluded with the sharing of

nasi tumpeng when the rice cone top was given to Mr. W as President Director. The ceremony enabled the owners to convey their appreciation of Javanese culture and religion, and assert common group membership. It brought owners and employees closer, promoted common interests, and de-emphasised ethnic differences. The owners also granted workers a short break with extra snacks and hot tea daily when fasting during *Ramadan* ceased. Despite the owners being Christians this demonstrated respect for employees' religious duties, which resonated with Javanese *bapakism* values.

Cultural controls proved very important in Friends, as the pains taken over selecting and recruiting employees, ensuring they had desired values, fostering social relations, and exhibiting respect for Javanese culture and religion indicate. The owners preferred Chinese employees, especially in key positions, believing they shared their values and social vulnerability. However, Javanese values were similar to Chinese ones – the problem here lay in perceived potential ethnic tensions. Thus, whilst the owners exercised cultural controls over white-collar employees, blue-collar employees were selected by Mr. U who employed his own criteria and contacts for selecting and rendering employees docile, submissive, and thus controllable.

Cultural controls filled gaps left by result and action controls. Result control needs quantifiable performance standards, which was not always possible. Action control helped deal with qualitative aspects of operations but required continuous surveillance and considerable resources. But action and result controls only dealt with symptoms and not the causes of latent ethnic antagonisms. Cultural controls address these more fundamentally by trying to inculcate alternative beliefs enacted in employees' daily activities. Cultural controls are more subtle than result and action controls which are overt visible tools to secure the owners' interests. Nevertheless, cultural controls did not supplant result and action controls – in practice they were intertwined, complementary, and only separable for analytic purposes. Result and action controls dealt directly with the process and outputs of activities, giving concrete directions on how to achieve organisational objec-

tives, whereas personnel/cultural controls helped suppress ethnicity and promoted employees' commitment to company aims.

Values, socialisation and ethnicity

The empirical analysis examined whether emic data on the Chinese owners' values incorporated Confucian cultural values of respecting vertical and horizontal relations, and personal qualities¹⁶ (see Fig. 1); how values were inculcated during socialisation; and how these values bore upon controls in the business. However, it is not sufficient to just match behaviour, controls, and comments to predetermined categories of culture, it must be demonstrated that beliefs derived from socialisation in a specific community.

The owners' values of Confucian order were imbued from childhood by parents, schooling, and daily life in Indonesia. All respect social stratification and appropriate behaviour when interacting with others. The owners' parents instilled the import of trust, reputation and personal relationships, for example by using classical Chinese stories as analogies:

"I have been fond of Chinese stories since I was a kid. The most impressive one is *Sam Kok*. I got two lessons from this. First, you need to know your personal strengths and those of your opponents before making decisions. Secondly, if you want to control somebody you need to know his character. For example, *Lu Po* was a strong and brave general. However, he was easy to bribe and easily betrayed his masters. This made him easy to tame." (Mr. W)

"We were often taught by our father about (the importance of) knowing people's personal characters. For example, from Chinese *kung fu* stories, we were told what ruthless and good characters are, and so on. Consider

what you can get in return if you want to pay something. This is all to prevent us from being cheated in the future. My father also gave examples of *cengli* and *non-cengli* behaviours." (Mr. H)

The owners strongly held Chinese values of *hsiao* and *li*. Mr. H commented:

"For us Chinese, there is no mature person. All people regardless of age are immature in the eyes of their parents. I have children, but they will never be mature enough in my eyes and neither am I in the eyes of my father. For example, my grandmother is 92 years old, and even now, she will admonish my father if he has not had dinner by 12 o'clock... My father has told me to learn from him since *he has tasted much more salt than me*".

Vertical order was evident in Friend's MCS. The importance of *li* was marked by expectations of loyal, obedient employees; the owners' prerogative to: assign duties, determine achievement allowances for white-collar employees, select white-collar and supervisory employees, spurn job descriptions or widespread delegated targets, and discipline by verbal admonishments. The owners' respect for *hsiao* was manifest in the budget involvement of Mr. H and Mr. W's father, attempts to develop personal relations with employees, and beliefs that ownership legitimated the owners' authority. They valued loyal, obedient subordinates who did not argue openly. Mr. W stated: "An ideal employee is one who has discipline, and is loyal and highly committed to the company. I really dislike employees not like that." Running the business was dominated by preferences for autocratic, patrimonial, harmonious family-like relationships coupled to obligations for employee welfare.

Respect for horizontal order was manifest in MCS practices. Family centrism was evident in the confinement of planning and budgeting to the inner 'family' circle, the appointment of owners to the Presidency and divisional headships, and their personal involvement in key accounting and purchasing tasks. Within the inner circle

¹⁶ The values *jen* (justice/equality), *chung* (sincerity and honesty) and *shu* (altruism) being fundamental values that permeate others were not used for coding but they are referred to in the text.

collectivism prevailed, underpinned by beliefs that all members were *jen*, *chung*, and *shu*. For example, the owners collectively determined budgets, sales prices, and company and divisional goals.

Beliefs about the importance of trust were inbred by the owners' parents. According to Mr. W, "Every time my father visits us, he teaches us. One can either occupy a respected position in society or be the trash of society... (To be respected) we must be able to make people trust us." Business transactions often relied on trust:

"I don't like people who cannot be trusted. When I was in the iron trade, one transaction could be as much as one billion Rupiahs¹⁷ and we didn't use any written documents. Everything was based upon telephone conversations" (Mr. W)

However, consistent with *jing shen* trust relations were guarded:

"Never fully trust other people. If you have Rp 1000, do not give it all to someone even your own wife, brother, etc. because it may be a matter of life and death for us. They may be good persons but they can be careless. Hence, all crucial decisions must be in our own hands." (Mr. W)

Maintaining reputation and 'face' were vital for maintaining trustworthiness for parents had taught the owners that this determined social status. Hence their direct involvement in purchasing and financial matters which, inter alia, enabled them to liaise with *guanxi* and protect their reputation. The *guanxi* was vital for support, and information about planning, budgets, and prospective supervisors and white-collar staff. Knowing personal characteristics was essential to distinguish insiders from outsiders. Insiders were well known, could be trusted, confided in, and helpful. Thus Cik K, being trusted, operated at the fringes of the inner circle, giving advice and exercising delegated authority to allocate tasks and administer discipline in administrative functions. Outsiders were deemed to possess unacceptable attitudes,

be *cengli*, or not well known. The owners were open and cooperative with insiders but maintained distant but polite relationships with others. Mr. W commented: "We have to maintain our etiquette on how to be polite with anybody else according to our Chinese customs." Who to trust was learned from parents, and friends and relatives in *guanxi*. Parents passed on distrust of *pribumi* but some *pribumi* and Chinese groups were considered more trustworthy than others.

"The *Bugis* and other ethnic groups from outer islands are more *cengli* than the *Javanese*. ... People from *Madura*, although many are involved in crimes, are *tamsunya*. A *Maduran* will defend his boss with his life even if he has to fight with another *Maduran*. People from *Jember*, both Chinese and *pribumi*, are generally tricky and deceitful – just like Chinese from *Medan*." (Mr. O)

Ancestral origins in China (e.g. Hokkian, Canton, Tio Ciu) were unimportant – Indonesian origins were believed to denote varying degrees of trustworthiness.

Ethnic stereotyping and distrust was reinforced by the education system which separates most Chinese and *pribumi* in Indonesian cities¹⁸ and experiences of social and state discrimination. For example, in 1986 all pupils (including Mr. W and Mr. A) in predominantly Chinese Christian secondary schools in Surabaya were suddenly sent home to avoid a possible anti-Chinese riot. As recently as May 1998 anti-Chinese riots in Jakarta, Medan and Solo resulted in about 50,000 Chinese fleeing Indonesia and not wanting to return.

Socialisation of values of frugality (*qin jian*) and asceticism (*ke ji*) came from parents recounting family history. Most immigrant Chinese, including the owners' ancestors, migrated to escape famine, poverty and war in China. Parents frequently recounted stories about early generations' poverty and problems to encourage their offspring to exercise values of *qin fen* (diligence), *qin jian* (frugality), *jing shen* (prudence and foresight) and *ke ji* (ascet-

¹⁷ About £83,300.

¹⁸ Chinese are the majority in private Christian schools and *pribumi* in state/other private schools.

ics). Buying the business was not an easy decision for the owners. They were inexperienced, knew little about the industry, had to borrow extensively and, apart from Mr. O, had secure jobs in parents' businesses. However, it was also an opportunity to take heed of parental exhortations to expand family welfare, as Mr. W reflected:

“The Chinese are more established in business because when their ancestors first came to Indonesia they were so poor they did not want their children to suffer like them. They worked very hard, lived very frugally and saved money little by little. Finally, their descendants had enough money to run their own business. Their children then continued to develop their parents' business or established new businesses.

On another occasion he stated:

“(To be respected) we have to save money. If we put one drop of water in a pool every day in the future the pool will be full of water. No matter how little money we receive we have to save it. If we already have a lot of money, money will seek us out. Otherwise we have to look for it.”

Chinese values regarding personal qualities were imbued by parents but reinforced by continual experiences of problematical ethnicity in daily life. The owners recounted many painful and traumatic ethnic events at the hands of some state officials and locals who viewed Chinese as targets for extortion and harassment. Hence most state officers and locals were viewed as potentially dangerous. Relationships were handled with caution and care, and values of prudence and foresight fused into business practices. A successful business built on *jing shen* (prudence and foresight), *ke ji* (ascetics) and *qin jian* (frugality) was seen not as an *option* but a *must* for Chinese survival in Indonesia. Having resources may avert calamities such as being expelled, as Mr. H recounted:

“If you have money, you need to save it for your future. My father taught me that if you earn money you should divide it into three portions: 50% for your savings, 30%

for your working capital and 20% for your family. If something happens to your business it will deplete your working capital. If the capital is used up – *mbo-hwat* – the last resort is the saving portion. This philosophy is applied in this company. . . . Once we can repay the entire loan we will not distribute all the profit to shareholders. 50% will be retained for new investment. When the savings are big enough we will use them for our pensions. Why? If something happens in the future we can still survive. Who could predict that the May 1998 tragedy would happen? This principle has been agreed by all the shareholders. . . . This company must survive whatever happens. However, our welfare must be protected as well.”

The owners were constantly alert to social and political developments in Indonesia for, as Mr. H stated, “If we can save money, then we can go to the USA, Australia or anywhere. We have to be prepared for the worst.”

However, the owners were not immune from wider social values and they internalised consumerism. Contrary to frugality (*qin jian*) and asceticism (*ke ji*) they spent money liberally when relaxing, possibly due to their youth. Frugality (*qin jian*), asceticism (*ke ji*), prudence (*jing shen*), diligence (*qin fen*) and family-centrism remained core business values but did not necessarily extend to their private life. They displayed their wealth amongst close friends but exhibited modesty in public, for example, staying in cheap hotels, consistent with *jing shen* and *ke ji*. Both values were evident in the owners' presentation of self, especially in uncertain situations. For example, at work and when dealing with perceived outsiders, the owners sported a modest appearance and plain clothing. However, when meeting prospective buyers or special guests they dressed well. They used inexpensive cars for work despite having luxury cars at home. When visiting state offices they wore tidy, plain clothes. They hid their wealth from *outsiders* to avoid being taken undue advantage of, and to promote freer interaction which made character assessment easier. Hence, modesty and prudence in daily life stemmed from avoiding extortion as well as cultural values.

Factors influencing management control

We now wish to examine the propositions about Chinese culture and MCSs summarised in Fig. 1. There was tentative evidence that Chinese Indonesian owner–managers emphasised personnel (cultural) and action controls rather than result controls as claimed by Harrison (1993), Merchant (1998), and Ouchi (1979, 1980) but the research uncovered a complex mix of action, cultural, and result controls that defies simple classification or dichotomies.

The Chinese owners selectively combined objective and subjective **action controls**. Bureaucratic methods, being objective, formal and rule-bound contradict Chinese managers' inclinations for informal controls and patrimonial management. However, Friend's owners used bureaucratic controls pragmatically and selectively. They would violate cultural values – possibly due to their modern, secular, education – if business circumstances warranted it. For example, length of service wage allowances reduced staff turnover, and objective rewards promoted perceptions of equity. Moreover, as Harrison (1993) and Lau et al. (1995) suggest, some aspects of bureaucracy are not antithetical to some Chinese (or Javanese) values, for example, length of service allowances rewarded loyalty. Being objective they could defuse ethnic tensions.

Nevertheless, formal action controls were used sparingly. The owners were unwilling to abandon subjectively defining appropriate employee behaviour. For example, they used accounting to prescribe behaviour but not for performance evaluation; written job descriptions were neither sought nor valued; and, where possible, employees were evaluated according to Chinese values, e.g. loyalty and obedience rather than efficiency or results. However, this also tallied with *pribumi* employees' understanding of legitimate authority relations.

The owners influenced white-collar workers' behaviour by subjectively determined 'achievement allowances', rebukes and dismissals. The message conveyed was, 'Everything you do is taken into account.' This was possible because ethnic tensions between employers and white-collar employ-

ees were low. But they had to use formal, standardised, rule-based, objective wage systems for blue-collar employees. Despite Mr. H's attempts to befriend workers, the owners could not monitor their behaviour directly and they relied, somewhat reluctantly, on Mr. U, *pribumi* supervisors, and informants.

The owners placed great store on **cultural controls**. Recruiting officially was formal and objective but in practice informal procedures predominated. The owners personally recruited white-collar employees according to: ethnicity, religion, and gender; recommendations from *guanxi*; and perceptions of trustworthiness. The owners preferred Chinese white-collar employees believing they held Confucian values, were easier to deal with, and were more controllable. For *pribumi* supervisors the owners used the *guanxi* and ranked candidates according to perceived trustworthiness, religion, ethnicity and gender. In contrast, when recruiting blue-collar workers the owners sacrificed values of *personal trust* for more urgent, practical problems related to ethnicity. They relied on Mr. U, who assessed candidates by his perceptions of desirable characteristics. Mr. U, despite his *bapak* status, protected his reputation for tranquil industrial relations by dividing employees and stamping on hints of unrest. The owners' dependence upon Mr. U worried them. Consequently, they tried to develop personal relationships with blue-collar employees by respecting Javanese patterns of interaction, observing *slametan* rituals, and providing sustenance during Ramadan, consistent with Chinese values of patrimony and reciprocity.

Thus the owners' use of cultural controls was a complex blend of fulfilling Javanese and Chinese values of patrimonial leadership and care, maintaining good relations with the local community, respecting workers' religious and traditional beliefs, and developing personal relations with employees despite mutual ethnic distrust and different expectations for speech and interaction. Yet the owners' ethnic fears spawned subversive forms of cultural control using informers; selective recruitment based on ethnicity, gender and religion; and reluctant dependence upon a *pribumi* mediator who, despite his position of *bapak*, weak-

ened shop floor resistance by creating worker divisions and his own brand of selective recruitment.

Although the owners favoured behavioural (action) and cultural controls, they experimented with **result controls** for key economic variables. The budget was not used for delegated control or performance evaluation, consistent with the findings of Harrison et al. (1994). Budgets were used for financial planning and control within the inner group and the owners retained personal control over key financial positions. Budget targets were not assigned to employees or owners acting as divisional heads apart from sales targets and production defect rates. The owners would pragmatically consider Western, modern approaches and selectively use result controls tied to rewards in critical areas.

In summary, the owners preferred cultural and action controls to align employee behaviour with Chinese values but this preference was constantly adjusted in the light of ethnic tensions and commercial effectiveness. They preferred informal controls but would use formal result controls for pragmatic business reasons. Moreover, objective bureaucratic procedures sometimes allayed ethnic suspicions and were not inconsistent with some Chinese and Javanese values.

There was support for claims that Chinese organisations are centralised (Birnbaum & Wong, 1985; Harrison et al., 1994). The owners filled all divisional headships and executed key activities in areas such as purchasing. Budget involvement was restricted to the owners and their inner sanctum. Here rules defining individual responsibilities and power were superfluous, for participation and trust was total, discussions open and frank, responsibility collective, and respect came from expertise. Values of personal trust, consensus and collective accountability derived from long personal relationships and shared interests prevailed, consistent with the claims of Birnbaum and Wong (1985), Harrison et al. (1994), and Merchant et al. (1995). This derived from Chinese values of distrust of outsiders, authority stemming from ownership, and protecting family wealth through diligence (*qin fen*) and prudence (*jing shen*). Outside the ‘family’ budgeting was autocratic and paternalistic – consistent with *li* – which makes

employers responsible for employee welfare, allocating jobs, and stewardship of resources.

MCS literature tends to dichotomise autocratic and participative budgeting. In Friends budgeting contained elements of both. It was autocratic in that it operated within concentric circles delineating *insiders* and *outsiders* but it was participative when it involved insiders. The owners believed it was imprudent (*jing shen*) to trust employees with financial information – even Cik K and Mr U were excluded. The owners kept Friend’s finances secret for fear of precipitating salary demands or extortion, though employees did not expect budget participation. Chinese employees’ respect for *li*, *hsiao*, and authority deriving from ownership was broadly consistent with *pribumi* employees’ beliefs about *bapakism* and social order.

It is argued that Chinese business values of ownership being the only legitimate source of authority encourage subjective rather than objective information and controls (Merchant et al., 1995; Redding, 1993). Javanese values of social order and *bapakism* have similar repercussions. Hence, Indonesian employees (whether Chinese or not) may grant Chinese owners the prerogative to make hard decisions such as hiring and firing, evaluating employees’ performance, determining rewards, allocating resources, and exercising discipline and control. When beliefs in familial discipline based upon ownership permeate organisational culture, then employees will tend to do as told, not answer back, and do not need controlling by a formal bureaucratic system. Personal trust and relationships between employers and employees displace more neutral means of coordination. Evidence on this was mixed during this research. During Mr. Ed’s ownership, which interviewees frequently referred to as ‘traditional Chinese business style’, controls were entirely subjective, leading to major commercial and industrial relations problems. The new owners introduced systematic, objective, and quantified planning and rewards for commercial and ethnic reasons. However, they rejected formal job descriptions and budget delegation, and retained subjective controls where possible due to their cultural preferences, which could reciprocate with those of employees, for example, no employee sought or expected formal job

descriptions. Hence, information and controls vacillated between objective and subjective depending on business pragmatism, cultural preferences, and ethnic tensions, which made ascertaining the owners' preference for a type of information at a particular time difficult. For example, important contextual information for budgets, often garnered socially within *guanxi*, was primarily subjective but its ramifications were translated into objective, quantified budgets. Whether the initial reliance on subjective external information owed more to the Indonesian business context, ethnic distrust, or Chinese business values is difficult to ascertain. Also, objective systems are not necessarily antithetical to Chinese business values, for example, salary increments based on length of service rewarded loyalty.

Merchant et al. (1995) argue that Chinese values such as loss of face militate against tying rewards to performance. This was largely so in Friends. Except for Marketing, where ethnic distrust was low, rewards were not tied to targets. Payment-by-result systems were rejected within Manufacturing due to possible ethnic complications and measurement problems. Nevertheless, performance related rewards were not rejected absolutely, e.g. sanctions were imposed for excess defects. Merchant et al. (1995) also argue that Chinese collectivist values incline owners towards group not individual rewards. Again, the evidence from the few result controls tied to rewards used was mixed. The owners established individual targets and commissions for salesmen (who worked independently) and personal achievement allowances for other Marketing staff but elsewhere they used group-based rewards to encourage collectivism, for example defect rate penalties in Manufacturing and group commission for other Marketing staff. Business contingencies – not merely values drove the formulation of rewards.

There were no long-run incentives, contrary to claims that Chinese values encourage them (Merchant et al., 1995). Environmental scanning was considerable but confined to the forthcoming budget period and information was mainly subjective and socially derived as Harrison et al. (1994) argue. However, the volatile Indonesian context militated against longer-run more quantitative

planning. Without a suitable control group it cannot be ascertained whether planning in Friends was longer-run than in comparable Western companies, as suggested by Harrison et al. (1994). The owners were not averse to long-run planning – it just was not practical in their situation. If there is a Chinese tendency to long time horizons it is likely to be context related.

Conclusions

This research links overseas Chinese businessmen's values to organisational controls, Confucian values, socialisation by parents, ancestral history, schooling, and formative experiences in the local community, especially ethnic stigmatisation. Javanese and Chinese Indonesian values are similar and, for *jiaosen* Chinese Indonesians, increasingly intertwined. Chinese values of *jen*, personal trust, reputation, face and family reliance, and Javanese values of etiquette and *rukun* both presume reciprocal social ties underpin relationships. Both subjugate individual rights to collective interests to maintain social order and harmony, and emphasise social hierarchy. Javanese etiquette (linguistic form and *andap-asor*) regulates behaviour according to social hierarchies. *Bapakism* entails mutual obligations between leaders and subordinates, and obedience, consistent with Chinese *li* and *hsiao* values. Exceptions were Javanese *slamatan* (rituals and mysticism) and religious duties. However, although the owners struggled with Javanese speech and interaction patterns this was not a significant problem as they reciprocated other expectations. MCS problems in multi-ethnic situations are often attributed to cultural differences. However, the values of the Chinese owners and *pribumi* employees were complementary: it was the history of state discrimination and wealth differentials that fuelled ethnic tensions.

The Chinese owners' orientation and preferences resided with controlling behaviour subjectively (action controls) and aligning employee and employer values through cultural controls, though they were not averse to using result controls for critical economic factors, or formal bureaucratic action controls when measurement

was feasible. This study confirms previous research claiming that Chinese owned businesses have low budget participation (Lau & Tan, 1998), centralisation (Birnbaum & Wong, 1985; Harrison et al., 1994; Lau et al., 1995), tendencies to subjective rather than objective controls (Merchant et al., 1995; Redding, 1993) and, tentatively, few rewards tied to results and greater use of group rewards (Merchant et al., 1995). Whether Chinese managers exhibited longer term orientations concerning planning and rewards (Harrison et al., 1994; Merchant et al., 1995) could not be ascertained.

However, the issues transcend beyond testing models of culture and accounting to the issues on page 7 expressing reservations about the conceptualising of culture in many accounting studies. The first question alleged that most studies are too general and neglect multi-culturalism. Support for this allegation came from this study. Indonesian cultures generally and within Friends were diverse, and Chinese culture was not unitary. For example, who is Chinese was not homogenous within Indonesia or Friends, depending partly on the extent individuals and groups of Chinese had assimilated other indigenous cultures. In Friends cultural diversity was marked, especially between Chinese and *pribumi*, and respondents claimed each culture varied regionally. National culture is an abstract concept that can dehumanise, deny free will, and rationalise dominant groups' discrimination against minorities. For example, the threats of ethnic conflict perceived by Friend's Chinese owners stemmed from rhetoric of politicians claiming (however dubious empirically) that Chinese Indonesians contaminated a notion of Indonesian culture and national identity propounded by the state, which led to Chinese Indonesians being constituted as marginal 'others'. As Bhimani (1999) notes, delineations of national culture can owe more to power/knowledge relations exercised by powerful institutions such as the state than beliefs grounded in a community. Accounting studies have not pursued such ends but uncritical employment of national culture carries this implicit danger. Thus when national culture is used its empirical veracity needs establishing with respect to antecedents, inculcation, and incorporation into action.

Second, this research illustrates the limitations of static accounting studies that ignore how and why cultures interact dynamically. For example, in Friends the culture of Chinese members varied between *totok* and *jiaosen*, which reflected their assimilation of other Indonesian cultures. Chinese Indonesian culture may become more *jiaosen* if political repression and ethnic conflict subsides, and pluralism and integration increase in the new political climate. Also, although the owners perceived themselves as Chinese Indonesians, they saw their business practices as rupturing the 'traditional' Chinese methods of Mr. Ed, partly because their age and education had exposed them to other cultures, including Western life-styles, aspirations, and methods of conducting business. Culture stems not just from antecedents but also from contact and conflicts with other cultures, and associated political dynamics.

Third, the problems of accounting studies that neglect historical and external organisational factors involving, inter alia, the impact of political and economic institutions and struggles upon culture and control, are illustrated in this study. For example, Indonesian Chinese culture relates to Chinese immigration patterns and how some Chinese were used politically and economically. For example, the economic role ascribed to Chinese businessmen by colonial rulers partly laid foundations for ethnic policies post-independence, whereby Chinese businessmen became 'pariah entrepreneurs'-abused and discriminated by state organs and politicians who used them for economic ends whilst, paradoxically, affording them a degree of privilege and protection. This was associated with 'Cold War' politics and allegations that indigenous Chinese identified with mainland Communism (whether spurious or not). Such regional and global political and economic relations percolated down to Friends. For example, the owners' beliefs were coloured by experiences at school and in the community, e.g. riots against indigenous Chinese and their property, and dealings with state officials. Ethnic tensions in Friends were a latent residual from previous eras. The potential threats contributed to Friend's owners fostering personal relations with employees, taking pains to respect *pribumi* beliefs, cultivating employee

informers, garnering intelligence from their *guanxi*, adopting bureaucratic systems, and employing a ‘*pribumi*’ mediator. However, this was dynamic. For example, Friend’s owners’ had to be creative in avoiding civil and industrial relations unrest as in the new democratic state they could no longer turn to the military.

This brings into play the fourth point of disputation with contemporary research on culture and control, namely that identifying who is Chinese outside mainland China is more problematic than often assumed. This study found who is Chinese was socially defined by the actors themselves and those around them – not biologically determined. ‘Who and what is Chinese?’ are ethnic constructs that overlap with claims to cultural distinctiveness. Definitions of cultural and ethnic identity are subjective, dynamic, complex, and unstable. As overseas Chinese businessmen operate in multi-ethnic societies, cultural and ethnic identities become intertwined with indigenous cultures and context leading to gradations and different meanings of being Chinese. Culture is a complex web of shifting patterns linking people in different locales and social formations: it is unwise to compare and contrast ‘Chinese culture’ across locations without careful studying context and dynamics, or to assume cultures are homogenous.

According to the fifth criticism, accounting studies fail to connect values back to socialisation or forward into action. The notion of culture presumes certain values are inculcated in specific social formations. However, accounting studies do not demonstrate how cultural values are imbued by socialisation in the family and education systems, and social experiences within and outside the workplace (Bhimani, 1999). In contrast, this study established a *prima facie* link between the owners’ beliefs, socialisation in Chinese families, and Chinese ancestry. However, this must be treated cautiously for cultures may not be enacted within MCSs (Harrison & McKinnon, 1999), values vary between core and peripheral, and they can be drawn on selectively according to the situation. Thus overseas Chinese businessmen’s beliefs and actions may be contingent and only intermittently bear upon control locally. For example, the owners would transgress values of

qin jian and *ke ji* in their private life, though when presenting self in public they took pains to act to the contrary. Also they would sacrifice values occasionally for commercial reasons, for example: formal targets tied to rewards for salesmen and production personnel, and an objective wages system for *pribumi* employees, violated beliefs about subjective performance evaluation being the owners’ prerogative; and Mr. U incurring penalties for production waste transgressed beliefs of collective responsibility. The Chinese owners mobilised cultural preferences when their benefits appeared to exceed costs. Thus they adapted some modern, ‘Western’ controls that ran counter to their cultural beliefs, though some aspects of bureaucracy resonated with shared cultural values of employers and employees. Indeed, they actively sought out information and advice on Western business methods. Cultural determinism must be avoided and heed paid to individual agency, choice, and context. For example, control exercised within Friends could owe more to company size, its technology, and family ownership than culture. It is difficult to ascertain definitively that culture, socialisation and action formed a causal chain despite linkages being established. Also, the behaviour and values of Friend’s owners may resemble those of ethnic minority immigrant businessmen elsewhere. That is, the values and behaviour of Chinese Indonesian businessmen may owe more to being an ethnic minority operating under difficult conditions rather than a distinctive cultural heritage (Light & Rosenstein, 1995). This is difficult to refute categorically for it was difficult to discriminate between the effects of ethnic tensions and Confucian values – they were intertwined. Demonstrating links to parental socialisation helped, *prima facie*, to ascertain links to heritage but this was also linked to ethnic experiences overseas. Further comparative research, more sensitive to local context, is required.

The last criticism accused accounting studies of undue reliance on problematical concepts and survey research instruments derived from Hofstede, often in tandem with problematical ones from contingency theory and research on accounting performance measurement (Baskerville, 2003; Chenhall, 2003; Harrison & McKinnon, 1999;

McSweeney, 2002), and neglecting building concepts and factors bottom up through field studies. On close reading leading contributions on Chinese culture and MCS (e.g. Awathsi et al., 1998; Merchant et al., 1995; O'Connor, 1995; Tsui, 2001) do link Confucian values to control in their literature review but they then use Hofstede's five dimensions and measures of national cultures to identify Chinese cultural attributes. But the connection of Hofstede's measures to overseas Chinese culture is surmise and not empirically grounded and accounting studies do likewise. The struggle to link Chinese culture to MCS factors may be because Hofstede's tools are inadequate surrogates of Chinese culture, which is formed by a rich mosaic of factors. 'Hofstede' studies, given their simple and generalised cultural dimensions, and their static and non-contextual nature, may be ineffective for extending work in this area.

Lastly, like any case study, our research has methodological limitations. Nevertheless, we hope it demonstrates how combining ethnographic methods of data collection with a version of grounded theory for data analysis can combine etic and emic insights on culture and MCSs. The aim is to complement and develop more conventional survey work – not to discount it. However, survey research has employed dubious etic categories and questionable research instruments arms-length from subjects with little regard to context and action. But, as Bhimani (1999) notes, it has entered ideational territory: cultural contingency research cannot divorce itself from methodological and research method issues that ensue. Ethnographic grounded studies can identify issues and concepts bottom-up to improve surveys but they are more than pilot stages. They offer rich detail that surveys or laboratory studies cannot capture that can challenge, enrich, and provide insight into conflicting or inconclusive results elsewhere. All is not lost for etic inclined cultural contingency researchers but they must incorporate emic issues. We hope more researchers in this vein triangulate theory and methods and avoid privileging the quantitative over the qualitative or the etic over the emic. Such work could beneficially incorporate theories of Societal Effects, New Institutional Soci-

ology, and the 'New' (especially Foucauldian) History as Bhimani (1999) commends but we are unconvinced that this is the optimal strategy as his proposals, like his targets of criticism, are accounting-centric for they draw mainly from extant accounting research. Our plea is much simpler – we simply wish accounting studies involving culture to engage more directly with the rich tapestry of theories and methods in anthropology and ethnography, of which Bhimani's commendations are a part, albeit a vital one.

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Appendix. Using grounded theory to analyse data

Grounded theory helped interpret, verify, organise and conceptualise data, and produce theoretical propositions. Grounded theory was developed by two sociologists, Barney Glaser and Anselm Strauss in the 1960s but their methodological approaches subsequently diverged (Parker & Roffey, 1997). Glaser advocates specifying research questions from actors' perceptions after site entry whereas Strauss and Corbin commend determining the topic of enquiry beforehand. Glaser prefers analytical methods that allow research problems to emerge naturally by constantly comparing incidents whereas Strauss and Corbin advocate more structured analyses arguing that researchers need specific, systematic guidance for interpretation. Finally, Glaser leaves testing and verification of emerging concepts to researchers using quantitative methods, while Strauss and Corbin advocate

provisional qualitative testing of concepts and theory during the research. This research, whilst conceding merits of Glaser's approach for emic research, opted for Strauss and Corbin's methods in the belief that it is impractical (perhaps impossible) to enter the field without theoretical constructs.

According to Strauss and Corbin (1998), grounded theory is generated by continuous interplay between data collection and analysis based on asking questions and making comparisons. The latter compares properties and dimensions of concepts emerging from the data with specific incidents, objects or actions derived from prior literature, or the researcher's experiences, to enable the meaning of concepts to be examined and developed. The initial interviews explored the owners' involvement in the company and its history. Then, they were asked how they performed management control. However, rather than use this term (which did not exist in their lexicon) phrases were used such as, monitoring employees, observing employee behaviour, assessing employees' performance, motivating employees, rewards and punishment, allocating tasks. Information on the owners' and key employees' roles in these processes, who helped them, and why, helped incorporate an emic view. Then, answers and personal observations were combined and categorised according to Merchant's division of action, result and personnel/cultural controls to derive the initial "model" of the MCS (etic view) and rudimentary causal relations. This provided the initial categories to classify the next interview questions. The initial interviews and categories resemble Strauss and Corbin's open coding processes.

Next, some employees were interviewed and observations conducted to validate this model. Where there were discrepancies or inconsistencies further interviews helped revise the model and incorporate emic data. Some memos were then made to trace relationships amongst categories (Strauss and Corbin's axial coding). For example, what was the relationship between financial penalties and the roles of Mr. U and Mr. H? The results helped determine the next interview questions. These processes were performed iteratively and continuously.

During interviews with the owners about the MCS, they were asked about their cultural values, social backgrounds, the history of their friendship, their perception of *pribumi* and Chinese, their business philosophies, etc. to derive their socio-cultural thoughts, i.e. their emic viewpoint. Some employees were also interviewed then about their opinions of the company and ethnic beliefs to garner their emic perspective. This was the most difficult part because the researcher had to be careful in presenting himself and show empathy. The researcher acted differently during interviews with the company's owners and employees. With the owners, the speech and body language tried to project being more of a management advisor to maintain openness. In contrast, with employees, the emphasis was on presenting the self as an academic researcher to gain trust. Academicians have high status with Indonesian people, especially since the 1998 political reforms. However, all subjects knew the researcher was both a management advisor and academic researcher.

Concurrently, some interviews were performed with some Chinese businessmen and *pribumi* intellectuals outside the company about their personal experiences of Chinese-*pribumi* interactions for comparison and validation, especially of the essentially etic models derived from literature on Confucianism and Chinese Indonesian ethnicity. This provided a bridge to make sense of the emic views of participants, for example, to understand why the owners considered ethnicity of applicants was important when recruiting, and why some workers viewed the owners with suspicion. Sometimes tentative conclusions were fed back to the owners and employees, e.g. "is it true that you do not trust them because of these reasons?" Thus the process was as follows: emic view → making sense of this through etic claims → gaining confirmation from the actors (reconciling etic and emic views). However, in some cases, this proved impossible. For example one could not ask workers "do you suspect him because he is a Chinese?" They would not dare answer for fear of giving offence. But some confirmation could be gleaned from key employees close to workers such as Mr. U and Cik K.

The interviews were also the basis for categorising the influence of culture and ethnicity upon the owners' beliefs and actions using open coding. Interview results were continuously integrated to the "model" of MCS via axial coding from questions about the owners' values, and their perception of how ethnic differences influenced their exercise of management control. There was no clear boundary between open and axial coding. Sometimes answers about relationships amongst categories (axial coding) would come accidentally when seeking descriptions of a specific category (open coding) and vice versa. After refinements using selective coding (here findings not established as related to the research questions and resultant model are stripped out) a general picture of the phenomenon under study was derived. During the validation and refinement of this during further interviews and observations some new findings about new categories (open coding) and new relationships among categories (axial coding) emerged but not frequently.

Documentary analysis was only used in the beginning of the study. Incorporation of the emic was crucial during interviews for many native concepts, terms, and thoughts appeared to lie outside the conventional boundaries of the MCS literature. The etic view was crucial for initially framing the research and conveying the views of actors and making sense of what happened to non-Indonesian readers. However, some data related to culture and ethnicity was removed during the refinement of the "model"/general picture during selective coding as it had no direct relationships with the MCS. The theoretical reviews that formed etic models of MCS, Confucianism, Javanese culture, and Chinese Indonesian ethnicity proved to be a two-edged sword. They helped the interviews to be done more systematically but, to some extent, they also may have restricted the "model"/general picture that emerged despite the emic analysis.

Do the methods depart from Strauss and Corbin? We certainly made adjustments to make the study feasible. This may be within Strauss and Corbin's intent for they acknowledge that their book is to make students: "... understand the purpose of procedures rather than to memorize the techniques themselves ... they should be able to

apply them flexibly and creatively to their own materials." (*ibid*, 1998, p. 14). However, we wish to make it clear that we did not conduct a full grounded theory study for we did not produce comprehensive theory. What we did is apply grounded theory methods to analyse data (grounded analysis).

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Glossary of Indonesian and Chinese terms

- Abangan*: Javanese people who are nominal Moslem and mainly peasants.
- Alus*: Javanese cultural concept meaning pure, refined, polished, polite, exquisite, ethereal, subtle, civilised and smooth.
- Andap-asor*: Javanese cultural concept meaning to humble oneself politely towards anyone who of either approximately equal or higher rank.
- Bakorstanas*: Coordinating Agency for National Stability – a powerful semi-military state agency during the New Order era dealing with subversion and other affairs that may cause public disorder and instability. However, the definition of subversion was never clear. Consequently, the agency often protected the interests of powerful state elites and to abuse and extort. The new government of Indonesia has dissolved it.
- Bapakism*: Javanese form of paternalism/patronage.
- Batin*: Javanese cultural concept meaning the inner realm of human experience.
- Cengli*: Colloquial adjective term originally from Hokkian (a Chinese dialect) used by Chinese Indonesians to describe something/someone that is plausible, fair, reasonable or just.

- Chinese Indonesian*: Ethnic Chinese in Indonesia. Chinese Indonesian rather than Indonesian Chinese is used to stress the general political affiliation of the ethnic group that identifies itself as Indonesian people with Chinese origin rather than part of the pan-Chinese global society.
- Cik*: Colloquial Hokkian for elder sister used informally by Chinese Indonesians and other ethnic groups for elder, senior Chinese women to denote respect and a close relationship in an informal situation.
- Cino*: Colloquial Javanese term with negative and racial connotation commonly used to express hatred or derogatory feelings towards Chinese people.
- Confucianism*: A Chinese philosophy concerned with social, moral and governmental problems emphasising social order and harmony.
- Guanxi*: Ethnic based trust network among ethnic Chinese.
- Hokkian*: A segment of the Chinese Indonesian community originally from Fukkien-China that has particular dialect.
- Hsiao*: Filial piety. A Confucian concept of vertical relationship between parents and children.
- Jiaosen*: Chinese Indonesians who adapt better to local cultures and customs. Their culture is a mixture of Western, local and Chinese/Confucian cultures and customs rather than pure traditional Chinese.
- Javanese*: Largest ethnic group in Indonesia mainly occupying the island of Java (Jawa).
- Jen*: Confucian concept meaning to love man. It consists of *chung* (sincerity and honesty) and *shu* (altruism).
- Juaji*: Colloquial Hokkian term for someone who is stubborn, disobedient, and selfish.
- Kasar*: Javanese cultural concept meaning impolite, rough, uncivilised.
- Kyai*: A traditional Javanese Moslem leader.
- Lair*: Javanese cultural concept meaning the outer realm of human behaviour.
- Li*: Confucian concept of individual's ascriptive roles in a society.
- Mbo-Hwat*: Colloquial Hokkian term that means that nothing can be done to prevent bad things occurring.
- Nasi Tumpeng*: Traditional Javanese meal for special occasions made from a large cone of cooked rice and side dishes such as chicken, vegetables, and eggs. The top of the pyramid is given to the person regarded as the leader.
- Penunggu*: Javanese term meaning a spirit/ghost guarding a place. Many people in Indonesia believe that every place has at least one.
- Pribumi*: Political term used widely in popular vernacular, coined during Dutch colonialism meaning indigenous Indonesian ethnic groups. It was used extensively during the New Order era to exclude and discriminate against ethnic Chinese to imply foreign origin. Its common usage overlooks that groups deemed indigenous are, at least partially, descended from various ethnic groups, including early Chinese immigrants.
- Rukun*: Javanese cultural concept meaning a state of agreement of unanimity in a group concerning its means and purposes.
- Sam Kok*: Classical story describing hundreds of peoples' personal lives and characters in detail during the end of the Han dynasty in China and the rise of three kingdoms.
- Santri*: Javanese people who are pious, orthodox-leaning Moslem.
- Slametan*: Communal feast that symbolises mystic and social unity of its participants given at celebrations, ameliorations, and sanctifications such as birth, marriage, sorcery, death, house moving, harvest, opening a factory, illness, supplication of guardian spirit, and circumcision. The ritual's purpose in Javanese society is to create and maintain social harmony (*rukun*).
- Tamsunya*: Colloquial Hokkian for attitude of always fulfilling promises whatever the consequences.
- Tao*: Confucian concept meaning way or moral law.
- Tenglang*: Used by Chinese Indonesians to distinguish themselves from other ethnic groups in Indonesia. It connotes *our people or friend*.
- Totok (old meaning)*: Chinese Indonesians who continue to speak their ancestral language, practice traditional Chinese customs, and are oriented sentimentally and politically to China/Taiwan.
- Totok (new meaning)*: Chinese Indonesians who practise traditional Chinese/Confucian values, speak Mandarin/other Chinese dialects, educate their children according to Chinese values, and celebrate Chinese traditional events.
- Tunjangan Hari Raya (THR)*: Allowance given to employees to celebrate one of their main religious days.
- Upah Minimum Regiona (UMR)*: The Indonesian government minimum wage reviewed annually. It was Rp 328,000 per month (around £28) in November 2001 for the Surabaya area.
- Warung*: Traditional Javanese tent café selling coffee, tea, traditional cakes, and a limited variety of meals. Poorer people use it for social gatherings.