INDIGENIZATION POLICIES AND CULTURAL DIFFERENCES OF JAPANESE AND U.S. MULTINATIONAL CORPORATIONS IN INDONESIA

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I. Introduction

Multinational corporations are often considered as the engine of economic development of developing countries, providing a package of important production factors such as capital and managerial and technological know-how. However, when a multinational corporation is understood as a corporation that has committed its resources in foreign countries in a form of direct investment, it implies that multinational corporations purchase the power to exercise some kind of control over the decision-making process of the invested-in unit (Dunning, 1970). In other words firm control over the affiliates' management is the essential condition for effective operations of multinational corporations. Hence, despite the benefit that they can bring to developing countries as the engine of economic development, there is a great danger that the effective organizational mechanisms of international control and coordination exercised by multinational corporations may threaten the economic sovereignty of developing countries and may denationalize the decision-making of developing countries (Okada, 1982; Moran, 1974; Vernon, 1971).

In the 70s we have witnessed the counter movements of developing countries to prevent such effects as denationalization and control by foreign parent companies. Backed by the increased bargaining power of OPEC countries, the U.N. resolution for a new international economic order (United Nations, 1974), a U.N. charter that guarantees economic rights and duties of states to regulate their jurisdiction (United Nations, 1979), and OECD (1979) behavioral guidelines for multinational corporations, an increasing number of developing countries began to impose stronger controls over the behavior of multinational corporations. Regulations such as the requirement of governmental evaluation of and approval for entry of foreign investment, registration of technology contracts, indigenization policies, and control over some aspects of transfer pricing are found in many developing countries (Vaitsos, 1973; Robock, Simmonds, and Zwick, 1977).

Among these policies one of the most prevalent policies exercised by developing countries in the 70s is indigenization policies. As a counter strategy to the multinationals' efforts to increase their control over affiliates' management, indigenization is understood to mean the process of increasing the control and domination of industrial organizations by indigenous people. By indigenizing affiliates of multinationals, local governments hope to increase their control over the activities of affiliates, the participation of local partners and managers, and consequently the infiltration of local interests into affiliate management. Indigenization as a set of policies may take several forms such as increasing the proportions of capital (indigenization of capital), top-level managers (indigenization of top-level managers), managers (indigenization of managers), skilled workers (indigenization of skilled workers), and procurement (indigenization of procurement), and increasing training efforts (transfer of technology).

Naturally, the needs of multinational corporations to maintain and strengthen international control and coordination of their affiliates in a developing country clash with the developing country's policies to indigenize affiliates of multinational corporations. Within this conflictive strategic interactions the purpose of this paper is to examine the process of advancing indigenization as well as the counter strategy of multinational corporations against the increasing regulations of the governments of developing countries.

However, often cultural differences are thought to be sources of structural and behavioral differences among multinational corporations from different countries. Even though multinational corporations are often argued to develop patterns of behavior that transcend national cultures, from the fact that in many cases the management of parent companies is controlled by the citizens of that geographical center (Daniels, 1974), it is possible to view multinational corporations as an expansion of parent company organizations that are conditioned by the particular culture in which the parent companies reside (Sauvant, 1976).

If so, the mechanisms of international control and coordination and also strategies of bargaining might differ between multinationals based in different countries. If indigenization policies challenge the mechanisms of international control and coordination by multinational corporations, the process of advancing indigenization as well as the multinationals' response to such challenges might differ according to the different cultural backgrounds of multinational corporations.

In this paper an inquiry is made on the relationship between the cultural differences of multinational corporations and indigenization policies.

Using a set of data collected in Indonesia in 1978 from U.S. and Japanese affiliates of multinational corporations, I shall examine two arguments.

Argument 1: The multinationals' patterns of indigenizing their affiliates and their counter strategies to indigenization policies differ according to the business culture of the parent companies.

Argument 2: Irrespective of cultural difference of multinational corporations, direct foreign investment does indeed reflect the foreign parent companies' efforts to control their affiliates.

In order to prove these arguments, I shall first of all present a very brief theorization of cultural differences between U.S. and Japanese multinational corporations, inquire how Indonesianization (indigenization taking place in Indonesia) advances and how multinational corporations counteracts to Indonesianization policies by examining 1) the organizational structures of affiliates of multinational corporations and 2) multinationals' mechanisms of international control and coordination.

II. Cultural Differences between U.S. and Japanese Multinational Corporations

Voluminous works on Japanese management have been published, and the debate whether the success of Japan is owing to the peculiarity of Japanese culture or not continues. A group of scholars emphasize the importance of cultural factors (Abegglen, 1958, 1973, 1984; Pascal and Athos, 1981; Clark, 1979; Ouchi, 1981; Lee and Schwendiman, 1982a, 1982b; Iwata, 1977, 1982, 1984; Tsuda, 1982; Hazama, 1971, 1978; Morishima, 1984; Sethi, 1975; Lebra, 1976), while others emphasize the importance of universalistic characteristics found in Japan (Cole, 1979; Dore, 1973; Marsh and Mannari, 1976; Katou, 1985; Koike, 1984; Yamada, 1980).

A clear difference in the style of management, indigenization processes, personnel structures, the mechanisms of international control and coordination, etc. found between U.S. and Japanese affiliates of the multinationals operating in Indonesia very much suggests the existence of the cultural differences between the two sets of the multinationals.

The organizational structures of U.S. multinational corporations may be seen as an extension of U.S. rational and impersonal bureaucratic procedures to international operations. These procedures revolve around functionally specific jobs and positions within organizations. In this sense, U.S. multinational corporations tend to have a "job-centric" organizational structure (Hayashi, 1980).

"Job-centric" organizations have functionally specific divisions of labor, and the specifically defined rules and functions given to a position determine the patterns of communication, decision-making, superior-subordinate relationships, and even interpersonal relationships. In such organizations human beings are considered parts of a bureaucratic mechnism, and are replaceable as long as they are equipped with necessary technical know-how. Employees are hired, promoted, or fired on the basis of whether or not they can "get the job done." Personnel are expected to pursue their own career plans and to move from organization to organization as advantageous opportunities arise. Accountability is assigned to offices, and individuals are held responsible for the decisions they make while in office. And there are often clear distinctions between employees' professional worlds and leisure worlds.

For a series of reasons having to do with Japan's unique history and with traditional Japanese collective behavior, Japanese corporate patterns differ from those of the U.S. (Yoshino, 1968; Doi, 1973; De Vos, 1974; Cole, 1971, 1971, Taira, 1976). Japanese industrial organizations focus on integrating individuals into the groups, in which internal harmony is considered important, and disunity and overbearing ambition are actively discouraged. In thise sense Japanese multinational corporations tend to have a "man-centric" organizational structure (Hayashi, 1980).

"Man-centric" organizations emphasize the informal aspects of interpersonal relationships rather than the functional aspects of bureaucratic organizations, creating diffusive organizational structure. This is because such Japanese traditional values as groupism, familism, paternalism, vertical human ties, and the web of reciprocal obligations infiltrate the organizational structures of Japanese multinational corporations. For that reason, "man-centric" organizations emphasize group performance, interpersonal dependency, internal harmony, informal communications, informal negotiations, and paternalistic hierarchical relationships, resulting in such organizational practices as diffuse organizational structures, formal and informal dual structures in leadership and communication, the *ringi* system, life-long employment, seniority-based promotion, etc. In order to act properly in "man-centric" organizations, it is essential to have shared understanding and values of the Japanese culture, and intimate informal interpersonal relationships nurtured for a lengthy period of regular and frequent face-to-face interactions. Thus, such "man-centric" organizations require acculturated personnel to perform diffusively defined tasks, and prevent unacculturated personnel from participating in the core activities of the organization.

Foreign direct investment necessarily means that foreign parent companies exercise control over the management of their affiliates. Because of the difference in organizational characteristics, the mechanisms of parent company control over affiliate management are also expected to show differences. With "job-centric" organizations, employees are controlled and coordinated through standardized operations, clearly defining functions, duties, and rights of each position, and codified work procedures. By clearly defining the distributions of power and authority given to each position, "job-centric" organizations specifically determine superior-subordinate relationships among personnel. Since individuals within "job-centric" organizations can move up the hierarchy of positions by acquiring occupational qualifications and demonstrating ability, and since their achieved status within the organizations determines their power and superior-subordinate relationships, such control mechanisms may be termed "class structural" control mechanisms (Dahrendorf, 1959; Taira, 1975). In contrast, "man-centric" organizations cannot substitute for managers who do not share the same Japanese cultural values. Since the time consuming and difficult acculturation process is the only way to indigenize personnel in the organizations, the ethnic differences determine superior-subordinate relationships within the organizations. Those who belong to the dominant cultural group perpetuate their dominant positions, and those who belong to the non-dominant cultural group continue to be subjugated to the dominant group, despite their technical superiority. In other words, the ascribed status of an individual determines whether that individual belongs to the superior or subordinate group. This type of superior-subordinate relationship may be termed a "caste structural" control mechanism (Taira, 1976). Thus, Japanese multinational corporations are expected to show "caste structural" mechanisms of control, while U.S. multinational corporations are expected to show "class structural" mechanisms of control. Such differences in organizational charactristics between U.S. and Japanese multinational corporations are expected to appear in the way in which their affiliates indigenize capital, top-level managers, and middle- and lower-level managers. Now I shall state the differences in a form of propositions for empirical research.

III. Propositions

A. Organizational Structures

The "job-centric" organizational structure of U.S. multinational corporations deals with employees as replaceable elements. This allows the multinationals to absorb culturally heterogeneous groups within their organizations. Such bureaucratic mechanisms as functional specialization and the formalization or standardization of tasks, duties, and rights allow new emloyees to grasp quickly the nature and characteristics of their positions and their relationships to their superiors, as long as they are equipped with specialized skills or techniques. Thus, the Indonesianization of dewan direksi (top-level managers) and middle- and lower-level managers can readily be promoted in U.S. multinational corporations. For this purpose, formally training indigenous managers or drafting competent indigenous managers from other companies become primary strategies for the "job-centric" affiliates of U.S. multinational corporations.

In contrast, the "man-centric" organizational structures of Japanese multinational corporations have difficulty absorbing culturally heterogeneous groups. For an employee of a Japanese affiliate to behave properly in relation to formal and informal leadership patterns requires intricate skills dealing with personal relationships cultivated and nurtured for a lengthy period of time (Yoshino, 1976). Since Japanese foreign expatriates are sent from parent companies to affiliates for periods of three to five years, it becomes difficult for local personnel to cultivate and nurture meaningful interpersonal relationships with them, even overlooking language and cultural barriers. Consensus-decision-making processes (ringi) often take place outside of the formal business agency in settings from which local personnel are typically excluded. The kinds of skills required to operate successfully within affiliates of Japanese multinational corporations are not readily transmitted in formal training programs. In fact, in many ways Japanese are more qualified than any other group to function effectively within Japanese multinational corporations.

For these reasons, Japanese multinational corporations often feel it is essential to maintain a high percentage of Japanese managers in their overseas affiliates. Comparing Japanese and U.S. multinational corporations, we would expect to find that U.S. corporations are more willing than Japanese corporations to promote the Indonesianization of *dewan direksi,* (top-level managers), and middle- and lower-level managers in their overseas affiliates.

> Proposition 1: U.S. multinational corporations tend to promote the Indonesianization of *dewan direksi* (top-level), middle-level and lower-level managers in their affiliates more than do Japanese multinational corporations.
>
> Proposition 2: U.S. multinational corporations tend to try to train Indonesian managers or to draft competent Indonesian managers from other companies more than do Japanese multinational corporations.

Even though U.S. multinational corporations Indonesianize *dewan direksi* and other managers, the maintenance of effective control by U.S. parent comanies requires the strong utilization of "class structural" control. over the Indonesianized affiliates. Since the clearly defined distribution of power and authority in the "class structural" control mechanism allows parent company managers to exercise their power from a remote location, U.S. multinational corporations hesitate to Indonesianize capital which is the legitimate source of power to exercise "class structural" control. In contrast, in "man-centric" organizations, the domination of *dewan direksi* and managers by foreign expatriates is the essential mechanism of parent company control. In order to avoid the Indonesianization of *dewan direksi* and managers, "man-centric" organizations would perfer to Indonesianize capital.

> <u>Proposition 3</u>: Japanese multinational corporations are more likely to be willing to Indonesianize capital than are U.S. multinational corporations.

Previously we hypothesized that U.S. multinational corporations hesitate to Indonesianize capital, since they see ownership of capital as the way to maintain parent company control. Another important mechanism for parent company control is to establish part-time foreign directors who reside in parent companies but simultaneously exercise their power to control affiliate management from parent companies. Such a mechanism also allows affiliates to decrease the conspicuousness of their foreign control over affiliate management. It would seem likely that establishing part-time foreign directors would allow "job-centric" organizations to exercise "class structural" control mechanisms from parent companies and to maintain control over affiliate management. Contrarily, "caste structural" control mechanisms in "man-centric" organizations would require a substantial number of foreign expatriates conducting affiliate business in Indonesia. Hence, Japanese multinational corporations would be less likely to establish part-time foreign directors.

> <u>Proposition 4</u>: U.S. multinational corporations are more willing to establish part-time foreign top-level managers than are Japanese multinational corporations.

Since Indonesia suffers from a shortage of capital, the government is more likely to exercise political pressure to Indonesianize managers and skilled workers. For "man-centric" organizations, such political pressure is threatening, since a large number of foreign expatriates are required to control affiliate management. In order to absorb such political pressure and simultaneously to maintain the "caste structural" control mechanism, "man-centric" organizations are more likely to engage in cooptation by establishing part-time Indonesian directors. By doing so, affiliates can create a public image that they are indigenizing the most important positions of affiliate management. "Job-centric" organizations find less need to coopt the political pressure in this manner.

> Proposition 5: Japanese multinational corporations tend to resond to political pressures to Indonesianize top-level managers by establishing part-time or honorary Indonesian managers more than do U.S. multinational corporations.

B. Mechanisms of International Control and Coordination

The "class structural" control mechanism in "job-centric" organizations provides Indonesian managers opportunities to participate in affiliate management, while the "caste structural" control mechanism in "man-centric" organizations discourages Indonesian managers from participating in management. With regard to power distribution between foreign erxpatriates and Indonesian managers in final decisions that are delegated to foreign affiliates, we are likely to find that foreign expatriates in "man-centric" organizations dominate a higher proportion of final decision-making power than do foreign expatriates in "job-centric" organizations. Similarly, we would expect that Indonesian managers in "job-centric" organizations would show a higher degree of control over affiliate decision-making than would Indonesian managers in "man-centric" organizations. This tendency should be found in both overall and budgetary decision-making. Foreign expatriates in Japanese affiliates would be expected to dominate with a higher proportion of overall and budgetary final decisions in affiliate management than would foreign managers in U.S. affiliates.

> Proposition 6: Foreign expatriates in Japanese affiliates tend to dominate with a higher proportion of overall non-budgetary and budgetary final decisions in affiliate management than in U.S. affiliates.

This tendency does not mean that U.S. multinational corporations are willing to yield to the bargaining power of Indonesian partners. Such tendency is made possible only when "class structural" control mechanisms of U.S. multinational corporations are well maintained by parent companies. In other words, the Indonesianization of final decision-making in U.S. multinational corporations is made possible by increasing the control of parent company supervision over affiliate management, and by increasing the proportion of decisions that are made in parent companies. In contrast, the "caste structural" control mechanism in Japanese multinational corporations tend to leave foreign expatriates to make most of the final decisions in their affiliates, and parent companies make only a small portion of actual final decisions. However, this does not mean that Japanese parent companies allow their affiliates to be autonomous decision-makers. Rather the process of consensus building ("*nemawashi*") in the *ringi* system actually functions as the mechanism of parent company control over affiliate management. Such tendencies are expected to take place in both overall and budgetary final decision-making.

> Proposition 7: U.S. parent companies tend to have a higher degree of parent company supervision over

affiliate management and a higher degree of parent company control over final decision-making in both overall and budgetary decision matters than do Japanese affiliates.

IV. Data and Measurements

A. Data

In 1978 a sample was gathered of affiliates of U.S. and Japanese MNCs in manufacturing and oil-related construction industries. A significant portion of head offices of companies related to this reseach was found in Jakarta (59 out of the 61 (96.7%) US affiliates; all of the 13 Japanese joint ventures with the government; all of the 2 Japanese wholly owned subsidiaries; and 73 of the 105 (69.5%) Japanese joint ventures with private local partners). Due to the limited time and financial resources, it was judget that data obtained in Jakarta were fair representation of all U.S. and Japanese affiliates in Indonesia. Thus, all U.S. affiliates and all Japanese wholly owned subsidiaries and joint ventures with the government in Jakarta were approached. However, with regard to Japanese affiliates with private local partners, the number was still found too large for this study. A stratified random sampling procedure (stratified by type of industry and proportion of foreign ownership) was used to reduce the sample size to 52. Then, weights were assigned to over- and under-represented observations so that the data would in principle be representing all Japanese affiliates operating in Jakarta with an equal weight.

The design of this research involved two levels of data collection in each affiliate, using two sets of questionnaires: one level was company data that indicated some objective characteristics of affiliates of multinational corporations; and the other level was individual data that depicted attitudes and perceptions of managers toward the issues of decision-making, Indonesianization, multinational corporations, etc. In each affiliate I requested one top-level foreign manager to complete the company questionnaire and one individual questionnaire, and I also requested him to ask one middle-level foreign manager and two top-level and middle-level Indonesian managers to complete individual questionnaires and to return them with a resercher-supplied return envelope.

As to the results, the company data consist of information from 46 (61.3%) Japanese and 29 (32.0%) U.S. affiliates. However, due to the weighing procedure, the total sample size was increased to 63 Japanese and 29 U.S. affiliates. The individual data contain 138 (68.0%) and 65 (32.0%) respondents in Japanese and U.S. affiliates respectively, and consist of 94 (46.2%) Indonesian managers, 79 (38.9%) foreign expariates in Japanese affiliates, and 30 (14.9%) foreign expatriates in U.S. affiliates.

B. Measurements

Two sets of indicators were used: one is the indicators of organizational structures and training schemes, and the other is indicators of power distribution between foreigners and Indonesians in affiliate decision-making. The first set consists of the indicators of Indonesianization in capital, *dewan direksi*, and managers, while the second set consists of the indicators of degrees of parent company supervision over affiliate management and parent company control over final decision making.
final decision making.

Students of complex organizations often encounter difficulties in measuring the magnitude of some organizational properties. This reseach obtained measurements of organizaional properties in two ways: 1) directly identifying organizational structures, and 2) aggregating individual scores. Scores for the first set were obtained using the former method, while the scores for the second set were obtained by using the latter method.

Aggregating individual scores to represent organizational property is often considered problematic (Lincoln and Zeits, 1980; Roberts, et al., 1978; Aiken and Hage, 1966; Pennings, 1973; and Blau, 1957). However, in this study it is assumed that individual effects cannot be separated from organizational effects (Hage and Aiken, 1967), and that measurement errors and individual differences in perception average out to produce a representative measure of an organizational property (Roberts, et al., 1978). In ordet to make indicators of organizational properties more accurate and representative, the Scale of Decision-Making Participation was constructed as a proxy variable for measuring the accuracy of individual perception about organizational behaviors. The scale was used to weight scores of individual perception, and then weighted individual scores were aggregated to represent organizational scores. The indicators of parent company supervision over decision-making were derived with this aggregation method. method.

The indicators of parent company and foreign expatriates' control in final decision-making aim at measuring a power distribution between foreigners and Indonesians. It is believed that the distribution of power in final decision symbolizes the power distribution within an organization. Proxy variables to identify the individual perception of power distributions were created from two types of information asked in both the individual and company questionnaires.

Even though scales and indices developed in this research may face some problems and may simply be proxy variables, they show high reliability scores as individual perceptions and are believed to have high or sufficient validity to examine each model.

Table 1: Differences Between U.S. and Japanese Multinational Corporations

Variables		Zero-Order Correlation Coefficient	Mean Values	
			Japanese Affiliates (N=63)	U.S. Affiliates (N=29)
Indonesianization of Capital				
PF	(N=92)	.231 *	70.42%	83.00%
Indonesianization of Dewan Direksi (Top-Level Managers)				
%F−F	(N=88)	−.229 *	84.10%	72.43%
%IP	(N=92)	−.241 *	61.90%	31.25%
%FP	(N=92)	.409 *	13.36%	36.20%
Indonesianization of Managers				
%FM	(N=91)	−.230 *	36.67%	18.29%
DTP	(N=92)a	.317 *	0.64	1.42
EME	(N=92)b	.342 *	0.10	0.54
Parent Company Supervision Over Affiliate Management				
OPCS	(N=87)c	.597 *	1.20	1.71
BPCS	(N=88)d	.324 *	1.54	1.96
SIO	(N=89)e	.417 *	0.10	1.21
Foreign Control Over Final Decision-Making				
PCTO	(N=88)	.590 *	5.79%	27.74%
PCTB	(N=89)	.379 *	10.83%	33.28%
FECOI	(N=88)	−.337 *	83.26%	64.53%
FECBI	(N=89)	−.360 *	84.59%	59.06%

Note: * : Significant at $\alpha = 0.05$ level ; a : Range is from 0 to 4 ; b : Range is from 0 to 2; c : Range is from 1 to 3 ; d : Range is from 1 to 3 ; e : Range is from 0 to 4.

NAPC = Nationality of Parent Companies
PF = Percentage of Foreign Capital
%F−F = Percentage of Full-Time Foreign Directors
%IP = Percentage of Part-Time Indonesian Directors
%FP = Percentage of Part-Time Foreign Directors
%FM = Percentage of Foreign Managers
DTP = Diversity of Training Programs
EME = Employing Experienced Managers
OPCS = Parent Company Supervision of Overall Decision-Making
BPCS = Parent Company Supervision of Budgetary Decision-Making
SIO = Standardization of International Operations
PCTO = Proportion of Parent Company Control in Total Framework of Overall Final Decision-Making
PCTB = Proportion of Parent Company Control in Total Framework of Final Budgetary Decision-Making
FECOI = Proportion of Foreign Expatriates' Control in Framework of Final Decision Made in Indonesia
FECBI = Proportion of Foreign Expatriates' Control in Framework of Budgetary Decision Made in Indonesia

V. Findings

A. Organizational Structures

Table 1 summarizes the differences between U.S. and Japanese multinational corporations in Indonesianization and parent company control. According to this table, Percentage of Full-Time Foreign Directors (%F−F, r = −.229) and Percentage of Foreign Managers (%FM, r = −.230) show significant zero-order correlations with Nationality of Parent Companies (NAPC has a value of one for U.S. multinational corporations and a value of zero for Japanese ones), and the mean values of %F−F in Japanese and U.S. affiliates are 84.10% and 72.43% respectively. This finding suggests that affiliates of Japanese multinational corporations have a higher percentage of full-time foreign directors than the affiliates of U.S. multinational corporations.

In the case of Percentage of Foreign Managers (%FM), Nationality of Parent Companies shows a significant zero-order correlation, and the mean values of Japanese affiliates and U.S. affiliates are 36.67% and 18.29% respectively suggesting that U.S. affiliates have advanced a little more in Indonesianizing managers than have Japanese affiliates.

These findings support Proposition 1 that U.S. multinational corporations tend to promote the Indonesianization of full-time *dewan direksi* as well as middle- and lower-level managers in their affiliates more than do Japanese multinational corporaions.

Proposition 2 states that U.S. multinational corporations tend to show more effort to train Indonesian managers or to draft competent Indonesian managers from other companies than Japanese multinational corporations do. According to the table, we find that both Diversiy of Training Programs (DTP, r = .317) and Employing Experienced Managers (EME, r = .342) show significant zero-order correlations. Japanese affiliates have a mean value of .64 in the range from 0 (no training) to 4 (highest diversity of training), while U.S. affiliates have a mean value of 1.42. The mean values of a degree of employing experienced managers are .10 in the range from 0 (none) to 2 (exercised for both middle- and lower-level managers) for Japanese affiliates, and .54 for U.S. affiliates. Thus, "job-centric" organizations seem to create more favorable conditions for training Indonesian managers as well as for hiring competent managers away from other affiliates or Indonesian companies than do "man-centric" organization. These findings seem to support Proposition 2.

Proposition 3 states that Japanese multinational corporations are more likely to Indonesianize capital than U.S. multinational corporations. According to Table 1, Percentage of Foreign Capital (PF) has a significant correlation with Nationality of Parent Companies (r = .231). The positive correlation coefficient suggests a higher percentage of foreign ownership in U.S. affiliates than in Japanese affiliates. The mean values of Percentage

Table 2: Percentage of Foreign Capital by Nationality of Parent Companies

NAPC	0−25%	26−49%	50%	51−75%	76−99%	100%	Total
Japan	1 (1.6%)	3 (4.8%)	5 (7.9%)	35 (54.8%)	17 (26.2%)	3 (4.8%)	63 (100%)
U.S.	1 (3.4%)	1 (3.4%)	2 (6.9%)	5 (17.2%)	12 (41.4%)	8 (27.6%)	29 (100%)

$X^2 = 17.329$, df = 5, p = 0.104

Note: The inconsistency of the total number and the actual sum is due to the weighing procedure.

of Foreign Capital for Japanese and U.S. affiliates are 70.42% and 83.00% respectively.

Table 2 shows the Percentage of Foreign Capital by he Nationality of Parent Companies. According to this table, the difference of nationality in the categories of 0−25%, 26−49%, and 50% is minor. However, even though X^2 value shows statistically insigniticant, differences are found in categories beyond 50% of foreign ownership. U.S. affiliates tend to be concentrated in the categories of 76−99% (N=12, 41.4%) and 100% foreign ounership (N= 8 , 27.6%), while Japanese affiliates tend to be concentrated in the category of 51−75% (N=35, 54.8%). The table suggests that U.S. affiliates prefer to maintain ownership beyond 76% and even up to 100% if possible, while Japanese affiliates prefer joint ventures with a minority share of local capital. Several U.S. managers expressed the opinion that U.S. multinational corporations tend to consider ownership to be the most important factor in maintaining control over their affiliates' management, and tend to resist governmental pressure to Indonesianize capital. The high percentage of foreign ownership in the U.S. affiliates may reflect this attitude of U.S. managers. Thus, the evidence seems to support Proposition 3.

According to Table 1, Percentage of Part-Time Foreign Directors (%FP) shows a significant zero-order correlation with Nationality of Parent Companies (r = .409). The positive coefficient indicates that U.S. affiliates have a higher percentage of part-time foreign directors than Japanese affiliates. The mean values of Japanese and U.S. affiliates in %FP are 13.36% and 36.20% respectively. U.S. affiliates have a 22.84% higher mean value than Japanese affiliates. This finding seems to suggest that U.S. multinational corporations are more likely to establish part-time foreign directors than are Japanese multinational corporations (Proposition 4).

We have also found that Percentage of Part-Time Indonesian Directors (%IP) has a significant correlation with Nationality of Parent Companies ($r = -.241$), and that Japanese affiliates have a higher percentage of part-time Indonesian directors (mean = 61.90%) than U.S. affiliates (mean = 31.25%). The high percentage of Japanese expatriates' domination in the full-time *dewan direksi* structure seems to force Japanese multinational corporations to appoint part-time Indonesian directors. Because of needs for foreign expatriates' domination in "man-centric" organizations, Japanese multinational corporations seem to be compelled to appoint part-time Indonesian directors to obscure the fact of the foreign control. This evidence seems to support Proposition 4.

B. International Control and Coordination

Proportion of Foreign Expatriates' Control in Framework of Overall Final Decisions Made in Indonesia (FECOI) and Proportion of Foreign Expatriates' Control in Framework of Final Budgetary Decisions Made in Indonesia (FECBI) in Table 2 indicate the degrees of foreign expatriates' control in final budgetary and overall decisions delegated from parent companies. Both FECOI ($r = -.337$) and FECBI ($r = -.360$) have significant ($\alpha = .05$ level) negative relationships with Nationality of Parent Companies, indicating that Japanese multinational corporations have higher percentage of foreign expatriates' control in both budgetary and final overall decisions delegated to affiliates than do U.S. multinational corporations. The extent to which foreign expatriates in Japanese and U.S. affiliates dominate final overall decisions is estimated to be 83. 26% and 64.53% respectively. Similarly, the extent to which foreign expatriates in Japanese and U.S. affiliates dominate final budgetary decisions is estimated to be 84.59% and 59.06% respectively. These findings seem to support Proposition 6 that foreign expatriates in Japanese affiliates tend to dominate a higher proportion of overall and budgetary final decisions in affiliate management than do foreign expatriates in U.S. affiliates.

With regard to parent company control over affiliate management, I shall inquire into five variables: 1) Parent Company Supervision of Overall Decision-Making (OPCS) ; 2) Parent Company Supervision of Budgetary Decision-Making (BPCS) ; 3) Standardization of International Operations (SIO) ; 4) Proportion of Parent Company Control in Total Framework of Overall Final Decision-Making (PCTO) ; and 5) Proportion of Parent Comany Control in Total Framework of Final Budgetary Decision-Making (PCTB).

According to Table 1, Nationality of Parent Companies shows significant positive correlations with all of these five variables (OPCS, $r = .597$; BPCS, $r = .324$; SIO, $r = .417$; PCTO, $r = .590$; and PCTB, $r = .379$), suggesting that U.S. multinational corporations have a higher degree of parent company control over affiliate management through manuals, supervising decision-making, or even actually making final decisions. Such tendencies are found for both budgetary and overall decision-making. For example, the degree to which parent companies make final overall decisions is estimated to be 5.79% for Japanese affiliates and 27.74% for U.S. affiliates. U.S. affiliates show about five times greater parent company control. Similarly, the degree to which parent companies make final budgetary decisions is estimated to be 10.83% for Japanese affiliates and 33.28% for U.S. affiliates. U.S. affiliates show about three times greater parent company control. These findings seem to support Proposition 7 that U.S. parent companies tend to have a higher degree of parent company supervision over affiliate management and a higher degree of parent company control over final decision-making in both overall and budgetary decision matters than do Japanese affiliates.

Ⅵ. Summary and Conclusion

Multinational corporations may be seen as the products of different types of cultures and as extensions of parent company business cultures and organizations to other countries. Comparing the cultural traits of U.S. and Japanese business organizations, we can categorize U.S. multinational corporations as "job-centric" organizations and Japanese ones as "man-centric." "Job-centric" organizations have functionally specific divisions of labor, and the specifically defined rules and functions given to a position determine the patterns of communication, decision-making, superior-subordinate relationships, and even inter-personal relationships. Within such organizational mechanisms, personnel is considered to be a replaceable component. Since individuals within "job-centric" organizations can move up the hierarchy of positions by acquiring occupational qualifications and demonstrating ability, and since their achieved status within the organization determines their power and superior-subordinate relationships, such control mechanisms exercised in "job-centric" organizations may be termed "class structural" control mechanisms.

In contrast, "man-centric" organizations emphasize the informal aspects of interpersonal relationships, producing diffuse organizational structures, consensus-based decision-making, and formal and informal dual structures in leadership and communication. Because of such cultural values as groupism, familism, paternalism, vertical human ties, and the web of reciprocal obligations that formulate "man-centric" organizations, it is essential to have shared understanding and values of Japanese culture and intimate informal interpersonal relationships nurtured for a lengthy period with frequent face-to-face interactions. Such requirements make it difficult for unacculturated personnel to participate in the core activities of the system. Those who belong to a dominant cultural group perpetuate their dominant positions, and those who belong to a non-dominant cultural group are subjugated to the dominant group. This type of control mechanism may be called "caste structural."

Since "job-centric" organizations can easily replace employees irrespective of ethnic background, U.S. multinational corporations tend to have higher percentages of full-time Indonesian directors and Indonesian middle- and low-level managers than do Japanese multinational corporations. Naturally, this tendency results in more training efforts in U.S. affiliates than in Japanese affiliates. In addition, U.S. affiliates employ experienced managers by drafting or hiring them away from other foreign affiliates or from Indonesian companies. This practice is found to be a major means of promoting the Indonesianization of managers. Naturally, Japanese multinational corporations, due to the difficulty of Indonesianizing managers, exercise this practice to a lesser degree.

The advancement of Indonesianization in U.S. affiliates does not necessarily mean that Indonesians increase control over affiliate management. Indonesianization can be promoted only when "class structural" control as a counter strategy is firmly maintained by parent companies and foreign expatriates within affiliates. One way for legitimizing the "class structural" control of parent companies is to maintain a high percentage of parent company ownership. Another way is to establish part-time foreign directors. Part-time foreign directors who reside in parent companies can exercise their power from parent companies, since they are the directors of affiliates. By establishing part-time foreign directors, U.S. affiliates can also obscure the fact of foreign domination in their affiliates. This may be why U.S. multinational corporations show higher percentages of foreign ownership and part-time foreign directors. On the basis of such legitimization of parent company control, U.S. parent companies exercise higher degrees of parent company supervision over both budgetary and non-budgetary decision-making of affiliates, standardized international operations, and actually make higher proportions of final budgetary and overall decisions than do Japanese parent companies. Because of such strong parent company "class structural" control, U.S. multinational corporations are willing to promote the Indonesianization of *dewan direksi* and middle- and lower-level managers.

In contrast, because of the difficulty in replacing foreign expatriates with Indonesians in "man-centric" organizations of Japanese affiliates, Japanese multinationals show higher percentages of foreign directors and managers than do U.S. affiliates, and lower degrees of training and employment of experienced Indonesian managers. However, since the political pressure to Indonesianize management is quite strong, Japanese multinational corporations as a counter strategy try to absorb the political pressure and simultaneously to maintain "caste structural" control in their affiliates. This counter strategy of Japanese affiliates results in a higher percentage of part-time Indonesian directors than in U.S. affiliates. Another counter strategy to ease the political pressure upon Japanese affiliates is to promote the Indonesianization of capital. "Caste structural" control finds it more important to maintain foreign domination in *dewan direksi* and middle- and lower-level managers than in capital. However, naturally, there is a limit in the degree to which Japanese affiliates can promote the Indonesianization of capital.

Because "man-centric" organizations emphasize group performance, interpersonal dependency, internal harmony, informal communication, and informal negotiations in affiliate management, as well as in parent-affiliate relationship, Japanese expatriates dominate final decision-making in both overall and budgetary matters. This may be why Japanese affiliates show higher percentages of foreign expatriates' control in affiliate final decision-making than do U.S. affiliates. However, the findings that Japanese parent companies show lower degrees of parent company supervision, manual control, and actual final decision-making do not necessarily mean that Japanese parent companies interfere less with affiliate management than do U.S. parent companies. This finding may simply indicate that the process of consensus building among managers of parent companies and affiliates in Japanese multinational corporations creates ambiguity in the actual process of parent company control and gives an impression, even to Japanese foreign expatriates, that final decisions are actually made by Japanese foreign expatriates in Indonesia. However, the process of parent company control and coordination is embedded in consensus building ("*nemawashi*").

Our evidence supports the Argument 1 that the multinationals' pattern of Indonesianizing their affiliates and their counter strategies to Indonesianization policies differ according to the business cultures of parent companies. The ways in which both U.S. and Japanese multinational corporations cope with problems of Indonesianization do not indicate their willingness to yield to Indonesianization policies. Rather, they reflect different patterns of handling such problems - patterns derived respectively from the U.S. and Japanese managerial culture. Thus, as the Argument 2 indicates, irrespective of cultural differences of multinational corporations, direct foreign investment does indeed reflect the foreign parent companys' efforts to control their affiliates.

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