

# Understanding Indonesian Business Culture



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## Introduction

### **Business Culture: The Need for a Pragmatic Focus**

With the continued integration of the global economy, questions related to culture and its impact on business should be on your screen. They are growing and becoming more perplexing. For Canadians, the push for diversification in export markets presents a plethora of practical business questions related to culture that many executives haven't fully faced before.

Is there a strategic way to prepare for cultural factors and key sources of market intelligence to rely on? Which international markets require a significant marketing adaptation and which ones will allow limited or marginal changes? How can I mitigate the risks deriving from business culture issues? To what extent can I apply the adaptations that successful firms have made and to what extent do I have to swim on my own? How significant are the cultural factors to success in a major market like Indonesia.?

#### **Discounting the Importance of Culture**

In my view, Canadian businesspeople are not in the forefront in identifying and appreciating the extent to which culture impacts trade with Indonesia.

Some of had success in the US and have the preconception that business will not be all that different in Indonesia. Others assume that cultural factors will naturally erode and that we are on the road to "global products and processes". Some think that their products and services speak for themselves. Canadian executives venturing out for the first time see cultural factors in the context of "nice to know" factors rather than "need to know." They haven't experienced the consequences of cultural faux pas and are not inclined to spend precious time on them.

Moving forward we can expect that business culture will continue to be a dominant factor in the Indonesian market as people are tremendously proud of their culture. On the international trade side, the glocalization process of global products with local adaptations is playing out in Indonesia just as it is all major strategic markets.

Looking at business culture in the global context, the reality is that there is a simultaneous convergence and divergence of national cultures taking place as countries participate in the global marketplace. On the one hand, they are certain global products and practices that have become commonplace while others have distinctly local characteristics. National pride and local content in markets like Indonesia will continue to support local products, brands and solutions and mean that you need to be very mindful of Indonesian business culture.

## **Understanding your Indonesian counterpart**

The premise that the cultural file can be absorbed as your firm moves along or handled by a “local representative” should be dismissed. After all, what you put into preparing for your business in Indonesia is equally reflected in what you come away with.

As EDC’s Regional Vice President for the Asia Pacific region, I saw the interplay between Canadian executives and their Indonesian counterparts first-hand. There was often a “disconnect” despite interest on both sides in working together. Canadians were thinking contract and short term, Indonesians were thinking relationship and long term.

Understanding your Indonesian counterparts - their motivations, the processes, the timelines, the decision-making, and how Indonesian culture weaves through all of this, can be hugely daunting, particularly to those who may have limited exposure. Many don’t know where to turn for help.

The cultural diversity within Indonesian is also significantly under recognized. Despite the fact that Indonesia is one of the most diverse countries in the world, I still see Canadian businesspeople looking for a one size fits all cultural approach to conducting business there. Like it or not, preparation on the cross-cultural side is not a quick fix and needs to be viewed from a holistic perspective — one that goes beyond geography, and incorporates the culture within the business sector, the organization and the individual counterpart.

## **Practical Business Impacts of Culture**

This guide delves into the direct impacts of culture on the key pillars and functions of conducting business in Indonesian. We present an overview of the Indonesian business environment, what you need to know about Indonesian business culture, contrasting negotiating perspectives of Indonesians and Canadians, cultural case scenarios and key tactics and strategies for success from the business culture perspective. We also draw on discussions with executives with direct experiences in doing business to capture the nuances seen from the ground.

It is my hope that this guide, will provide you and your firm with useful insights and “inside information” to avoid the potential pitfalls and bottlenecks due to a lack of cultural awareness.

## Chapter 1

### Overview of the Business Environment in Indonesia<sup>i</sup>

The largest economy in Southeast Asia, Indonesia – a diverse archipelago nation of more than 300 ethnic groups – has charted impressive economic growth since overcoming the Asian financial crisis of the late 1990s.

Today, Indonesia is the world's fourth most populous nation, the world's 10<sup>th</sup> largest economy in terms of purchasing power parity, and a member of the G-20. An emerging lower middle -income country, Indonesia has made enormous gains in poverty reduction, cutting the poverty rate by more than half since 1999, to 9.4% in 2019.

Indonesia's economic planning follows a 20-year development plan, spanning from 2005 to 2025. It is segmented into 5 year medium term plans each with different development priorities. The current medium-term development plan runs from 2015 to 2020. It focuses on, among others, infrastructure development and social assistance programs related to education and healthcare.

Considerable challenges remain in achieving Indonesia's goals. Out of population of around 267.3 million, about 25.1 million Indonesians still live below the poverty line. Based on March 2019 data, approximately 20.6 % of the entire population remains vulnerable of falling into poverty, as their income hovers marginally above the national poverty line.

While greater efforts are being made to improve basic public services, the quality of health clinics and schools is uneven by middle income standards, contributing to concerning indicators, particularly in health.

### Canadian Opportunities

Indonesia is Canada's largest export market in Southeast Asia, buying large quantities of Canadian bulk products such as wood pulp, cereals and fertilizer, as well as manufactured goods like mining equipment and machinery and telecommunications technology. With Indonesia forecasted to continue making great economic strides, there are now an expanded number of industrial sectors where Canadian exporters and investors can seize fresh opportunities. These include infrastructure, shipping and ports, agri-food, oil and gas, mining and power.<sup>ii</sup>

## Accelerators and Ongoing Issues

The country faces many challenges and ongoing issues as it strives to improve its business environment and create sustainable economic growth. Core issues of corruption and excessive bureaucracy are still hurdles for any investor while unqualified human resources and poor infrastructure are restraining GDP growth from reaching the levels being seen in India and China. However, slow but steady steps are being taken to address the aforementioned obstacles. Undoubtedly, Indonesia possesses the fundamentals to be a leading global economy over the coming decades.

It enjoys an abundance of diverse natural resources including liquid natural gas, thermal coal, tin, gold, silver, copper and renewable energy. Its climate allows for the production of key agricultural commodities including palm oil, rubber, coffee and cocoa to name a few.

Such natural resources make the country unique among other emerging markets in providing long term energy and food security for its burgeoning population. The challenge that now exists is that of effective and sustainable management. Long an exporter of primary products, Indonesia has been riding the global commodity boom while failing to take advantage of value-added processes to boost revenue and diversify its offerings. This needs to be the focus going forward and will present some excellent opportunities for Canada to bring in technology, expertise and services.

As a country of some 240 million people and growing, the size of the Indonesian domestic consumer market is an alluring attribute for any investor. A growing middle class is opening up the scale and scope of the consumer market. What lays ahead to take full advantage of the consumer boom is ensuring that Indonesia's manufacturing sector plays a greater role in the production of the goods being purchased.

There is much to be said for Indonesia's demographics as a key component of its future growth potential. Over 50% of the population is below the age of 30, is highly adaptive to new technology and has a low dependency ratio among its workforce given rise to a so called "transitional demographic dividend"

Indonesia has undergone a significant political transformation since the fall of General Suharto in 1998 and is now a vibrant democracy that is continuing to strengthen its political structures and deepen the enfranchisement of the population. The current President, who is in his second term has been able to bring a huge amount of investor confidence to the country and his stance on terrorism and national security has been most welcome.

On the other hand, the speed of some of the economic and political reform has come under fierce criticism for its inertia and pandering to vested interests of coalition members. The gap between rich and poor is also widening while corruption continues to be a persistent issue.

The country's natural resources, potential in renewable energy and food security offer a sustainable buffer to the climbing prices being seen in oil and foodstuffs which is fueling social discontent in other markets. Their potential as feedstock for value added manufacturing will also be vital in steering the country through its transition to a middle income and developed economy. The vast population that is set to grow to 288 million by 2050 will serve in both a highly skilled productive capacity as well as consumer market as the country reaches its predicted position of being the world's 6<sup>th</sup> largest economy<sup>iii</sup>.

<b>Accelerators</b>	<b>Ongoing Issues</b>
<b>Political Stability through democracy</b>	<b>Covid-19</b>
<b>Diverse natural resources</b>	<b>Excessive bureaucracy</b>
<b>Increased investor confidence given reforms at the Federal level</b>	<b>Slow economic and political reforms</b>
<b>Solid banking system</b>	<b>Lack of Intellectual Property Protection</b>
<b>Large and Youthful Domestic market</b>	<b>Corruption and graft</b>
<b>Growing middle class</b>	<b>Lack of qualified human resources</b>
<b>Opportunities for value added support from Canada</b>	<b>Poor infrastructure</b>
<b>Renewable energy</b>	<b>Terrorist activity and national security concerns</b>
<b>Government's pro-business stance</b>	<b>Weak legal system</b>
<b>Transitional demographic dividend</b>	<b>Relatively poor education system – strong need for training employees</b>
	<b>Hierarchical mindset doesn't match well with western business structures</b>

## **Chapter 2**

### **What You Need to Know About Business Culture in Indonesia<sup>iv</sup>**

Indonesia has often been described as a shining example of emerald islands scattered across the equator from Asia to Australia. Few other countries in the world are comprised of more distinct cultures and languages than Indonesia. Its diversity of peoples and belief systems makes it certain that the foreign professional working in Indonesia encounters situations that are confusing and unexpected. Add to this mix a struggling economy, a nascent democracy with a co-opted bureaucracy, and the world's largest Muslim

population and the result is a fascinating conglomerate culture in one of the largest and most important countries in the world<sup>v</sup>.

The differences between Western cultural styles and Indonesian cultural norms becomes very apparent in the business environment. Most Western cultures believe that humanity is basically good. Most Western cultures believe that the human-nature relationship is one of the mastery over nature meaning that if nature gets in the way you can change it. Most Western cultures have a very strong future orientation with the belief that planning and scheduling today make it possible to succeed tomorrow. Finally, most Western cultures have a strong belief in individualism and equal rights meaning that if you work hard, you will be rewarded.

Indonesian standard business culture is quite different. First of all, it should be understood that there is no single Indonesian culture. Indonesia with its 17,000 islands and hundreds of different ethnic groups is a vast collection of different peoples and cultures. Thus, you must always know who you are dealing with. However, Javanese culture has long dominated the archipelago and is the standard for Indonesian business culture today.

Indonesians generally believe that people are a mixture of good and evil. People are usually good especially when constrained by responsibilities to the group. However, there is the potential for evil in all people. Normally constrained individuals can perform irrational acts believed to be outside that person's control.

There is a strong subjugation to nature, meaning that nature controls your life and there is little you can do as an individual to move yourself ahead. One should accept one's position in life.

Most Indonesians tend to look toward the past as an example for today. There is a strong belief in tradition but also in rules and regulations that need to be followed regardless of practicality. In Indonesia, the proper aspect of humanity is to be expressive and emotional although that expressiveness and emotionalism lives just under the service. This means that it can be difficult to determine the emotional state of most Indonesian coworkers, but that strong emotions can surface in ways that may be confusing to a Western supervisor.

Social relationships tend to be twofold in Indonesian culture. First there is a strong authoritarian framework with natural born leaders and natural born followers. These relationships are clearly defined. However, within each particular group there is a strong belief that the community make decisions in order to avoid individual responsibility.<sup>vi</sup>

## **Relationship Oriented**

Personal relationships play a large role in Indonesian business culture. Indonesians see trust as key to good business and will be looking for an honest commitment to the relationship from you. Their business networks are often comprised of relatives and peers as nepotism is assumed to guarantee trust.

Indonesians generally see themselves as doing business with people, not entities. You represent yourself as an individual more than you do your company. Therefore, expect them to ask many questions about your family and personal life in an effort to get to know you. Sometimes these can come across as direct and overly personal, but it is not intended this way and they will expect you to ask the same of them. Doing so in return will signify respect.

## **Harmony**

In Indonesian business culture, people believe in good harmony and relations are the most important components to successful business.

The concept that “time is money” does not translate culturally. Instead of being urgently productive, people try to maintain a pleasant atmosphere at work. Therefore, keep in mind that they may take a longer time negotiating and completing things. Do not be pushy or insistent on punctuality or speed as displays of aggression or heavy insistence can make Indonesians hesitant of doing business with you. Accept that they can be more concerned about having a smooth business negotiation than making a hard - driven profit.

## **Indirect Communication – Meaning of Yes<sup>vii</sup>**

It is widely known that Indonesian people can be very indirect in expressing their thoughts and opinions. Normally, when people say “yes,” it means that they agree to something. The same cannot necessarily be said for Indonesians, at least not in the workplace.

According to information from Emerhub, there are three kinds of “yes” that expats may want to get used to

1. “Yes, I hear you talking “
2. “Yes, I understand what you said”
3. “Yes, I agree with you”

Keep in mind that a yes may not result in any action being taken by the Indonesian side. Indonesians are very polite and rarely say “no”

This can be tricky if you are an expat working with Indonesian subordinates. The first “yes” may mean that they acknowledge what you’ve asked. However, they still may disagree.

It is advised that before delegating work to subordinates, expats make sure there is alignment with the discussions and that there are precise instructions. Double check to ensure clarity.

## Hierarchy is Important

The Indonesian business structure is usually in the form of hierarchy and status is greatly valued among local workers. Indonesians usually address their superiors with “Bapak” or “Ibu” (translated to Sir and Madam respectively)

Indonesian subordinates may also do whatever it takes to make sure the leaders are happy. Expats may observe that subordinates rarely correct their leaders in meetings.

## Religion

Religion is an important part of everyday life in Indonesia. About 85% of the population is Muslim, but there are also significant Christian and Hindu populations. The diversity of faith across the archipelago has engendered a culture of religious tolerance, with the state motto, translating to “unity in diversity”

The vast majority of Indonesian Muslims observe a moderate form of Islam, with a very small minority advocating stricter adherence.

So how does religion in Indonesia impact business? First of all, in the larger Indonesian cities it is often easy to forget that Indonesia is a majority Muslim country. Indonesian cities are secularized, and on a day to day basis religion has very little impact on how the average person lives and the way businesses operate. As a foreigner, politeness and good manners are sufficient in most social settings.

There are, however, a few issues foreign companies operating in Indonesia should be mindful of. Friday prayer is supposedly a 1-1.5 hour break in the middle of the day. Because the prayer starts at midday Friday and functions as a reminder that the work-week has come to an end, the reality is that very little work takes place after Friday prayer.

During the Ramadan fasting month business activity slows to a crawl. Although most Indonesian’s don’t strictly observe fasting from sunrise to sunset for the entire month, a majority will forego lunch and not take any liquids during the day. Productivity levels consequently drop throughout the day and late afternoon meetings in the hours before the breaking of the fast at sunset are usually unproductive.

At the end of Ramadan comes the Eid ul-Fitr holiday, which marks a mass exodus of Indonesians to their hometowns. The holiday is meant to be three working days, but usually extends to a full week for white-collar workers. For blue collar workers, the expectation is two weeks off.

## **Saving Face**

If there is another thing that many Indonesian workers value, aside from a harmonious place of work, it is reputation. Otherwise known as “face”, reputation determines a worker’s life at work. It is linked to a person’s dignity, honor and value.

The main reason most Indonesian workers avoid conflicts and confrontation is to save one’s face. In the West, face might not be such a grave matter compared to Indonesia, as Westerners generally appreciate team members who are direct and honest.

It is important for expats to understand that most Indonesian workers prefer any kind of criticism to be expressed privately. The smallest blemish on an Indonesian workers’ sense of pride could potentially push them to resign from the company.

## **Negotiations**

Indonesians generally take a non- aggressive approach to business as they view boisterous behavior very negatively. Rather, they speak softly and with little emotional weight. Try to echo this same style of communication. Show compassion and be personable, but do not be confrontational or let emotion get in the way of negotiations.

Almost everything can be seen as negotiable in Indonesia, so expect some bargaining. Indonesians do not bargain aggressively and high - pressure tactics are likely to collapse negotiations. Therefore, if they have unrealistically high starting positions, allow time to gently sway them over the course of the meeting.

Do not interrupt an Indonesian. They will usually give you plenty of room to speak and often show great respect during conversation. If you do not do the same, they may be too intimidated to share their opinions at all.

Expect Indonesians to defer to hearing your opinion a lot as Indonesians often ask their counterparts to speak first so that they can modify their own proposals. They will also show a great amount of deference by trying to say what they think you want to hear. This can, of course, make it hard to decipher what their genuine opinions are. Though it is possible to get Indonesians to clarify what they mean, meetings still often end with a few points seeming vague.

Indonesians may be reluctant to tell you when they cannot understand or disagree, so sometimes it can be hard to judge how successful negotiations are.

## Ethics<sup>viii</sup>

In Canada/US and Europe, laws and regulations exist that demand accountability and best practices. This is not the case with Indonesia. It is not uncommon for large scale, white-collar crimes to go unnoticed for years. The OECD recently published a report that explores why it is difficult to cultivate ethical business behavior in Indonesia. Its top three conclusions were that Indonesia has inadequate law enforcement, a lack of good corporate governance ( ie generally accepted accounting practices, equal opportunity employment, worker rights etc) and an overarching “ apathetic” cultural attitude that says “ This is the way things are done around here”

On the Corruption Perception Index ( 2017), Indonesia ranks 96<sup>th</sup> out of 180 countries, receiving a score of 37 ( on a scale of 0 to 100). This perception suggests that the country’s public sector is somewhat corrupt.

Corruption in the Indonesian bureaucracy is a top of mind issue and many international executives are wary when dealing with government agencies. However, what’s rarely discussed is the “corruption” that exists in business to business (B2B) transactions in Indonesia.

Kickbacks, side -deals, personal success fees and other schemes that stay off a company’s books are very common in Indonesian B2B deals. A culture that often overlooks kickbacks and rent-seeking at the corporate level provide employees with ample opportunity to make money on the side, and the practice is in most cases not seen as illegal or even unethical. Its rather seen as an action where no one gets hurt. When two companies enter into an agreement, a personal “ reward” is expected by employees on both sides of the deal for making it happen, and this is deeply ingrained in Indonesian culture.

## Contracts in Indonesia

Notwithstanding the weaknesses of the Indonesian legal system, contracts are still an important part of Indonesian business. However, there are some distinct differences that foreign investors should take into account.

In the west, the attitude is that “a deal is a deal “, and contracts consequently use a language where rights and responsibilities of the contracting parties are clearly laid out in writing. Once an agreement has been signed it’s usually closed for further negotiations and is binding regardless of changes in circumstances.

In contrast, contracts in Indonesia are usually much less detailed and often are subject to renegotiation and reinterpretation. Flexibility is seen as a virtue and contracts are worded accordingly. This means that the context upon which an agreement is made is much more important than the signatures on a document.

## Appearances First<sup>ix</sup>

The OECD claims that Indonesia displays an iceberg phenomenon when it comes to local businesses. Above the surface, on the tip of the iceberg, outsiders can observe a well-written code of conduct, sound policy, gleaming company awards and good CSR programs. But below the surface, a typical Indonesian company displays a highly authoritarian and centralized decision-making process, low individualism for employees, parochial internal culture, and a short term, results-oriented corporate strategy.

## Chapter 3 Case Scenarios

### a) Scenario 1<sup>x</sup>- Beerenberg

South Australian jam and condiments maker Beerenberg, has been selling its jams to Indonesia since 1993. Today Indonesia is Beerenberg's third largest export market, behind Japan and China. Beerenberg's entry into Indonesia was through its miniature jars of jams sold to five star hotels. It was already exporting to Singapore, Japan and Hong Kong when it struck an agreement with Jakarta food distributor Masuya Graha Trikenca.

Managing director Anothony Paech says Indonesia was chosen with a specific market in mind : holidaying Australians in Bali. For the small, family owned business, niche exports make more sense than mass-market brand building. By earmarking Australians in the popular Indonesian resort destination, the Beerenberg brand was already on familiar ground. "We were looking for export markets that would work well for us. Australian tourists want a product they are familiar with, they love that taste of home, and the hotels welcome being able to offer their guests premium exported products", Paech says.

Paech insists the long standing relationship with Masuya – he met the company's owners at a food industry trade show in Singapore- has been critical to Beerenberg's success in Indonesia. "Having people you can trust and work with is absolutely vital. If you've got a solid relationship of trust you're halfway there," he says.'

Paech says Masuya has been invaluable in helping Beerenberg to navigate government bureaucracy. On one occasion the Indonesian government unexpectedly launched a crackdown on food labelling, enforcing dormant laws requiring foreign food labels to conform to local language and product specification requirements. Until then Beerenberg was using its Australian labels. "That would have been a big issue for us if we first had to

firstly understand the government requirements and then to comply with them. It made all the difference having our distributor on the ground. And it wasn't just the labels. It was also customs rules and what's printed on the cartons " Paech says. I've been lucky to have been shielded from some of the more difficult discussions with government"

Beerenberg is planning on further inroads into Indonesia. The surging Indonesian economy and a boom in foreign tourists means more hotels and resorts to buy Beerenberg's jams, honey and sauces. Indonesia's expanding middle class also has an appetite for premium food products and Beerenberg's products are now available in Jakarta supermarkets. Paech visits Jakarta twice a year to meet with his distributor, get to know sales staff and keep him abreast of consumer tastes.

"It's about maintaining the relationships and about staying relevant. For us to have products that Indonesian consumers want to buy we have to visit the market and really understand its consumers," he says. "If you can get a foothold in Indonesia, it's really worth it"

## **b) Scenario 2 – Bakrie family's regulatory arbitrage<sup>xi</sup>**

Indonesia's Bakrie family has more than anyone else in Indonesia excelled at taking advantage of a system where politically connected domestic companies collaborate with the government to create bureaucratic problems for foreign investors, which they subsequently reap huge financial rewards from fixing. Below are a couple of examples of how the family has benefitted from a practice that can be described as regulatory arbitrage.

### **Dairi Zinc Mine**

In 2008, Bakrie – controlled Bumi Resources acquired a 100% stake in Australian Herald Resources for US \$ 550 million, a price which reflected that Herald had failed to secure the forestry licenses it needed to develop the Dairi zinc mine in North Sumatra. In 2011, President Yudhoyono issued a Presidential Decree giving Bumi Resources the forestry licenses it needed to develop the mine, dramatically increasing the value of the asset which subsequently was sold to Chinese investors for an undisclosed amount.

### **Masela Gas Block**

In 2009, Bakrie-controlled Energi Mega Persada (EMP) bought a 10% stake in INPEX's Masela block in the Timor sea for US \$ 77 million. At the time, Indonesia's oil and gas regulator was refusing to approve INPEX's Plan of Development for the block. In 2013. After the Plan of Development was approved, EMP sold the 10% stake in the Masela block back to INPEX and Shell for US\$313 million.

## Strategy

Due to the complexities involved with investing in Indonesia, getting a comprehensive overview of stakeholders is important for all foreign companies entering the Indonesian market. A Stakeholder Audit should therefore feature high on a company's to do list. This should be a mapping of all institutions and individuals with an impact on a company's business, ranging from ministries and government officials to local community leaders, business partners, industry associations and NGO's.

The mapping should to the extent possible give an overview of the stakeholder's political, financial and personal networks. The findings will later provide valuable guidance on how to interact with the different stakeholders.

Information that is particularly important to identify in a stakeholder analysis is whether partner companies have government officials as owners or large stakeholders, have ownership interest in competing companies, and if there are any links to the military or any of Indonesia's large conglomerates.

Whether a partner company or tis owners has been involved in any corruption cases or other illegal activities, got any unresolved legal disputes, or has been involved in bankruptcies or debt defaults is also valuable information a stakeholder audit should uncover.

### c) Scenario 3 – Whatsapp<sup>xii</sup>

Indonesians are early adopters of new technology, and with the rise of smartphone apps like Blackberry Messenger and more recently Whatsapp, the way Indonesian professionals communicate have changed. Among most Indonesian professionals there is today a strong preference for communicating exclusively through Whatsapp on almost all work -related matters. This has several advantages and matches with the short form most Indonesians prefer to express themselves in writing but also a few drawbacks.

Multinationals may for regulatory and information-control reasons require employees to use the corporate email system as it creates a paper trail the company later can easily access. Employees communicating and sharing documents get overlooked as your average Indonesian Whatsapp user will get hundreds of private messages each day, in addition to the work-related messages.

However, getting Indonesians to use email for work related matters when all their other communications happens on Whatsapp is increasingly hard, and a battle that may not be possible to win at this point. The better option is probably to establish a company-wide policy on information management and alert employees to always save all work-related information they receive through Whatsapp on the company's servers.

By the end of the day, most Indonesians are aware that multinationals have a different corporate culture, and they will accept differences. In most cases, a job in a multinational company is seen as more secure and better paid, which trumps other factors. There are also other benefits attached to working for a foreign company. Multinationals are known for investing more money in training their staff. Moreover, clerical and support staff may also prefer to work for a multinational company as they see a flatter western corporate structure as a bonus where their work is more valued and where their voices are heard.

## **Chapter 4**

### **Tactics & Strategies for Success**

Compiled from our research, experience on the ground in Indonesia and interviews with both Canadian and Indonesian business executives, here's a roundup of recommended tactics and strategies that will help you better navigate Indonesian business culture. They are presented in alphabetical order for ease of reference. You should visit and revisit them as you plan and execute your strategy in Indonesia.

#### **Clothing**

The dress code varies depending on cultures and companies, but it is recommended to adopt a formal style and to respect the Muslim rules of modesty. Standard western business attire are recommended when attending a normal business meeting. Heat and humidity can be really strong in Indonesia and have to be kept in mind when choosing clothing.

#### **Contracts**

Many foreign investors try to get around the uncertainties in the Indonesian legal system by making contracts subject to foreign jurisdictions such as Singapore, the UK or the US. While this provides some extra security, it gives no guarantee of not being taken in front of Indonesian courts. Consult closely with legal counsel.

#### **Corruption**

Be mindful of “red flags” such as unofficial meetings, flows of funds or activities through 3<sup>rd</sup> parties, special bidding processes and special requests or gifts. Stick to your company's ethics guidelines.

The prospect of having to pay illegal fees is something that foreign investors may be faced with at some point. Getting belongings through customs when moving to Indonesia, obtaining a work permit and an entry visa or establishing a business with all the necessary licenses and permits are processes where extra fees may be requested.

Often some of these matters are dealt with through agents or consultants on a don't ask, don't tell basis. Multinational companies bound by a strict zero-tolerance policy on corruption will often hire a reputable law firm or global accounting firm to handle license or permit issues to make sure they are done properly, without any illegal payments being made. This doesn't always result in no fees being paid as sometimes these legal or accounting firms in turn hire agents to deal with fees.

Prominent local Indonesian nationals are also sometimes contracted to deal with ensuring that fees can be avoided but these individuals who have leverage over some Indonesian bureaucrats are more expensive than agents. Operation 100 percent "clean" is possible, but it will mean that what should take days will take weeks, and what should take weeks will take months.

So what can be done to deal with B2B corruption? First, foreign companies have to recognize that rent-seeking, kickbacks and side payments are not only limited to the Indonesian government, but are also very much a part of B2B transactions. Companies need to develop clear policies and procedures for how to deal with it.

Employees should be made aware of what a company's policy is on side payments in cash or kind in B2B transactions. No ambiguity should exist that allows employees to later claim that they weren't aware that their actions were in breach of company policy.

Employees should also be asked to sign a "code of conduct" that clearly outlines what is expected of them, and the sanctions that exist for not following company rules. Training sessions in business ethics that highlight the dilemmas and temptations employees can face in B2B transactions are also important and needs to be carried out on a frequent basis.

## **Demeanor**

Indonesia is an open, friendly and peaceful country. Nevertheless, good cultural awareness will ease the culture shock and assure you avoid any unnecessary faux pas in daily life and business. Indonesians are taught from a very young age to remain calm in public, avoid disagreements, speak quietly with consideration and not get angered by little things. You should do the same. Adopt a humble demeanor, practice patience and remember to smile.

## **Dining and Entertainment**

Social events usually start late in Indonesia and expect Indonesians to arrive thirty minutes later than the given time. As a predominantly Muslim country, most of the population does not consume alcohol or pork, and in certain restaurants, fingers are used for eating. Again, always remember to eat with your right hand, keeping your hands above the table. As a Westerner, you should avoid talking about business at the dinner table unless the subject is raised by your host.

It is the normal protocol for the person who extends the invitation to pay the restaurant bill.

## **First Contact**

When trying to establish the first contact, it is preferable to be introduced by a third party, who should be carefully chosen ( a local associate or bank representative), It is advisable to meet the highest ranking person of the company first. Personal visits are fundamental as Indonesians may not answer emails, phone calls or messages. Initial meetings are generally not business focused, as they are used to get to know the counterpart.

## **Gift Giving**

Giving small gifts can help develop and maintain business relationships. To avoid any hint of corruption, gifts should be small and should not be given during first meetings. Gifts should always be wrapped and will usually be opened in private. Muslim colleagues or clients should not be given alcohol.

It is advisable to give small gifts during special holidays such as Eid and Christmas.

## **Greetings**

Arrive on time but consider that your Indonesian counterpart may be late to a meeting. Build in some flexibility to your schedule so you are not disrupted.

Greetings can be rather formal as they are meant to show respect. A handshake is the most common greeting accompanied with the word “ Selamat”. Many Indonesians (especially Muslims) greet each other by bowing and putting their hand on their heart. Always start with the eldest or most senior person first as titles represent the status of a person. They are very important in Indonesia and should be used together with the name. Superiors are often called “bapak” or “ibu”, which means the equivalent of father or mother.

Receiving Business Cards: Asian cultures can interpret the respect that you show someone's business card to be indicative of the respect you will show the individual in business. Use both hands (or the right hand only) to receive a business card as the left hand is considered unclean. Do not put the card away and regard it carefully and place it in front of you on the table.

## **Hierarchy**

Indonesian business culture is hierarchical based on age and position. Leadership is paternalistic and the oldest person usually leads the discussion. Despite the hierarchical structure of Indonesian business, consensus is sought from everyone before a decision is made in order to maintain harmony.

## **Language**

Indonesian, or "Bahasa Indonesian". A standard dialect of Malay, is the statutory national language of the country. Although recognized as the only official language used in commerce, formal education and the media, most Indonesians are bilingual. Most will speak a regional dialect as their mother tongue, such as Javanese, Sundanese or Madurese. There are 700 indigenous languages spoken across the archipelago, making the country one of the largest multilingual populations in the world.

English is quite widely spoken in Indonesia but much less outside of the major cities and tourist spots. As an expat, business traveller or tourist you may want to consider lessons in Bahasa Indonesian, which are readily available in Jakarta and the islands. However, be aware that business with foreigners is often conducted in English.

## **Loss of Face**

In Indonesia, it is important to understand the cultural concept of "loss of face", which is about avoiding the cause of shame "malu", creating social embarrassment to others and yourself. Never mock or insult anyone and shortcomings should be addressed privately. Likewise, blame should never be discussed publicly. Another manifestation of a desire to avoid "loss of face" is that Indonesians generally communicate very indirectly, which means they do not always mean what they say. Indonesians have more than ten ways to say "no" and even more ways of saying "yes" whilst meaning no.

## **Negotiations**

Negotiations generally proceed very slowly and at the first session little progress is usually made. In general, Indonesians like bargaining and giving concessions too quickly will be viewed as naivete. Verbal contracts and understandings are considered important but a written legal document is highly recommended.

## Public Holidays

Public Holidays which are noteworthy and you should respect include :

Jan 1 – Christian New Year  
Jan 10 – Islamic New Year  
1<sup>st</sup> day of the 1<sup>st</sup> month of the Chinese calendar – Chinese New Year  
New Year in Balinese Calendar - Day of Silence  
March 20 – Birth of the Prophet Mohammad  
Variable – Good Friday  
May 1 – Labor Day  
May – Waisak  
May – Ascension of Christ  
June – Ascension of Mohammad  
August 17 – Independence Day  
Variable – end of Ramadan  
Variable – Feast of the Sacrifice  
Dec 25 – Christmas day

Companies close during Ramadan ( max 3 weeks) and Christmas ( 1 week)

## Relationships

Relationships are extremely important to Indonesian businesses. Indonesians are generally unwilling to enter into a business arrangement with someone that they do not have a relationship with. As such you should enlist the help of a local partner or influential Indonesian to make the necessary introductions before you attempt to enter into negotiations.

Doing business in Indonesia has been described as a chess game and that it is more about who you know rather than what you know. So it is important to develop and maintain close business contacts preferably those with the right connections.

It should not be viewed as unusual if some of your business negotiations are conducted on a golf course or over a meal. Socializing while conducting business is considered normal and just another part of forming a better personal relationship.

## Religion

You need to do your homework to identify the religion of your counterpart and the implications for business. With regards to Muslims and Friday prayers, companies can issue clear guidelines about the time employees have to pray. The reality, however, is that it's difficult to change the established perception that the weekend starts with the end of Friday prayer. Similarly, while Indonesian Muslims don't view the month of

Ramadan as time off from work, they also don't expect to be held to the same standards of efficiency, output and working hours during the fasting month.

By recognizing these limitations, a company can organize its operations so it has the least impact on overall output. For foreign companies operating in Indonesia, its also important to notify headquarters in the home country about the shorter working hours and drops in output so activities and timelines can be adjusted.

## **Rubber Time**

Time in Indonesia is referred to as “rubber time” due to the elastic approach Indonesians have towards it. Therefore, meetings can often start or finish late. Meetings are often unstructured and do not follow a well – defined agenda.

## **Chapter 5**

### **Getting Help When & Where You Need it**

Navigating Indonesian business culture is a constant learning process and one where surprises and faux pas occur, regardless of how well versed and prepared you may be on the cultural file.

MIRA services ([www.miraservices.ca](http://www.miraservices.ca)) can help provide important guidance to your learning curve and the support you need when issues arise through the provision of the following services:

- Research and analysis of your business opportunity in Indonesia with strategic recommendations on how to best proceed
- A critique of your business plan including from the business culture point of view
- Recommended cultural tactics and strategies tailored to your current situation
- References to a network of experts who can address specific issues related to culture, including marketing, negotiations, human resource management and much more

## Notes

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<sup>i</sup> <https://www.worldbank.org/en/country/indonesia/overview>

<sup>ii</sup> Doing Business in Southeast Asia Guide - EDC

<sup>iii</sup> [http://www.gbgingonesia.com/en/main/why\\_indonesia/why\\_indonesia.php](http://www.gbgingonesia.com/en/main/why_indonesia/why_indonesia.php)

<sup>iv</sup> <https://culturalatlas.sbs.com.au/indonesian-culture/indonesian-culture-business-culture>

<sup>v</sup> <https://www.indonesia-investments.com/business/working-living/indonesian-business-culture/item411>

<sup>vi</sup> <https://www.indonesia-investments.com/business/working-living/indonesian-business-culture/item411>

<sup>vii</sup> <https://indonesiaexpat.biz/outreach/info-for-expats/opinion-understanding-indonesias-business-culture/>

<sup>viii</sup> <https://www.techinasia.com/how-to-cope-with-indonesias-murky-business-culture>

<sup>ix</sup> <https://www.techinasia.com/how-to-cope-with-indonesias-murky-business-culture>

<sup>x</sup> <https://asialinkbusiness.com.au/research-resources/casestudy-beerenberg>

<sup>xi</sup> Handbook – Challenges of Doing Business in Indonesia – Norwegian Energy Partners, Innovation Norway Oct 25, 2017

<sup>xii</sup> Handbook – Challenges of Doing Business in Indonesia – Norwegian Energy Partners, Innovation Norway Oct 25, 2017