

# **Daihatsu Shifts and aligns its Strategies: A Case Study of the Appointment of an Indonesian as the CEO of Astra Daihatsu Motor**

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## **Abstract**

Japanese multinational companies are known for the employment of Japanese expatriates to manage their overseas subsidiaries. Daihatsu Motor Company made history in 2011 by choosing a local Indonesian manager as the president director of Astra Daihatsu Motor – the Indonesian subsidiary of the Daihatsu Motor Company. This study explores reasons behind this appointment. The paper argues that Daihatsu, through this appointment aligned its corporate, procurement and human resource strategies, took account of the fact that the local manager has contributed to the turnaround of the subsidiary and that he has work values quite similar to those of his Japanese counterparts.

**Keywords:** Astra Daihatsu Motor, Automobile industry, Daihatsu Motor Company, Indonesia, International human resource management practices, Japanese multinational companies

## **Introduction**

Japanese multinational companies (MNC) are known for the transfer of their management practices to their subsidiaries (Beechler and Yang, 1994 & Yu and Meyer-Ohle, 2008). Human resource management functions as they are practised in their headquarters play a strong role in their subsidiaries (Jacoby, 2004). In order to transfer their management practices to their subsidiaries, they tend to send the parent country nationals (PCN) i.e. Japanese nationals to ensure that management practices in their subsidiaries conform to the headquarter practices. Japanese MNCs are well-known for their heavy reliance on expatriates for the management of their overseas subsidiaries (Tung, 1982; Kopp, 1994; Beechler and Yang, 1994).

This ethnocentric international employment practice (Perlmutter, 1969) that most Japanese MNCs pursue creates such problems in their subsidiaries as high employee turn-over and strikes from local employees (Kopp, 1994; Konomoto, 2000; Yu and Meyer-Ohle, 2008). The management styles that have been implemented by Japanese MNCs received both praise and criticism (Legewie, 2002). Critics point out that the Japanese MNCs do not always allow host country nationals (HCN) to be in the top- management positions in their subsidiaries and thus deprive them from contributing to the decision making process (Konomoto, 2000; Yu and Meyer-Ohle, 2008). However, the implementation of Japanese management practice seems to be more apparent in their Asian subsidiaries compared to their subsidiaries in the USA and Europe (Beechler and Yang, 1994; Shibata, 2006). Thus, it is quite common to see HCNs in the top-management positions in their subsidiaries in the USA and Europe (Beechler and Yang 1994; Shibata, 2006).

Some studies claim that the Japanese management style is changing and these changes are being implemented not only in their American and European subsidiaries, but also in their Asian subsidiaries (Shibata, 2006). These changes, beginning in the 1990s, were caused by such factors as demographic changes in Japanese society, recession, maturing economy, and increased competition (Pudelko and Harzing, 2009). Thus it is claimed that, in the future, more HCNs would occupy top-management positions in their Asian subsidiaries (Shibata, 2006). One such change is the appointment of Mr. S, an Indonesian HCN who was appointed as the CEO of Astra Daihatsu Motor (ADM), the Indonesian subsidiary of the Daihatsu Motor Company (DMC). DMC, one of the famous Japanese car manufacturers specializing in small cars, made history in 2011 by choosing a HCN as the president director of ADM – a subsidiary of DMC. Mr. S is the first Indonesian to become the president director of ADM since its establishment in 1973. Moreover, it also automatically made him a Director of DMC and made him the first ever foreigner to become one of the Directors of ADM (Rinaldi, 2012).

The top-management positions in subsidiaries can be filled either by appointing a PCN or a HCN (Gong, 2003). Those two choices are quite different in terms of their strategic implications for a MNC. MNCs assign expatriates to subsidiaries to transfer the knowledge systems and to infuse corporate culture from headquarter to subsidiaries. In addition, the placement of PCNs allows companies to monitor and control company operations in their subsidiaries (Perlmutter, 1969). In contrast, a MNC may also localize their management and management practices by hiring HCNs. Localization reduces total compensation costs since expatriates are normally paid more than local employees. Localization helps MNCs overcome language and cultural barriers, builds network of personal and business contacts, improve relations with local companies at various levels of government. Host country governments perceive localization as an indication of the commitment of MNCs to the country. Localization may go a long way to improve the morale of the local managers by offering opportunities for long term career in the company (Selmer, 2004). This study explores reasons behind the appointment of a HCN - Mr. S - as the President Director of ADM.

The paper argues that DMC, in appointing a HCN as the CEO of ADM, aligned its corporate, procurement and human resource strategies, took account of the fact that the CEO has contributed to the turnaround of the subsidiary and that the HCN has work values quite similar

to those of his Japanese counterparts. Starting with a review of relevant literature, the paper proceeds to discuss the method of data collection, history of ADM, and the factors that contributed to the selection of Mr. S as the CEO of ADM. The paper finishes with a discussion of the findings and identifies challenges facing DMC in appointing a HCN as the CEO of its Indonesian subsidiary.

### **Literature Review**

Literature search found that most of the research on MNC subsidiary relationship in Indonesia focused on issues other than the one raised in this study. There are two studies that discussed relationship between MNCs and their subsidiaries in Indonesia. These studies also discussed relationship between expatriates and host country national (HCN).

Lee and Chen (2003) report that the Taiwanese MNC they studied viewed Indonesia as a source of cheap labor rather than as a market and most of the top-management positions in the Indonesian subsidiary were occupied by Taiwanese expatriates. These expatriates were assigned to transfer their knowledge and working experience to the Indonesian employees.

The study by Noverita (2007) found that the multinational consulting company they studied viewed Indonesia as a market; they customized their services to the local demand. The study reported that the MNC pursued multi-domestic strategy, encouraged local autonomy and the Indonesian subsidiary was given autonomy to manage local business with limited involvement of the headquarter. The study reported that the MNC relied on PCNs to accomplish such important company work as executive search because of the lack of local talents. The PCNs, however, found it quite difficult to adapt to norms and values that operate in the consulting business in Indonesia and thus their performance was not very satisfactory in the eyes of the headquarter.

### **Method of data collection**

This study triangulates interview data and secondary data to address the research question. Secondary data was collected from magazines, newspaper, and company websites by using Google & Google Scholar related to the topic of the appointment of Mr. S as the President Director of ADM. Primary data for the study was collected through qualitative interviews. Based on purposive sampling method (Bryman, 2011) interviews were conducted with six top level managers from ADM including Mr. S who is the President Director ADM. Interviews were semi-structured and maximum care was taken to allow informants to express their own perspectives. Thus, interviews were open ended and conducted in a conversational setting. The company is located in north Jakarta, Indonesia and that is where the interviews were conducted. The interviewees were Indonesian nationals and the interviews were conducted in Bahasa. The first author translated them into English.

### **History and background of PT. Astra Daihatsu Motor (ADM)**

In 1973, Daihatsu Motor Corporation (DMC), one of the oldest automobile manufacturers of Japan entered into a joint venture agreement with an Indonesian company called the PT. Astra

International to establish the PT. Astra Daihatsu Motor (ADM). ADM was established as the sole agent, sole importer and distributor of Daihatsu vehicles in Indonesia (Soelaeman, 2011).

Daihatsu brand vehicles sold and marketed in Indonesia by ADM include: Zebra, Ceria, Charade, Taft, Feroza, Taruna, Xenia, Terios, Sirion, Gran Max, Luxio and Ayla. Hitherto, ADM has sold more than 3 million vehicles in Indonesia. Daihatsu vehicles are distributed in Indonesia by ADM through its 137 sales network and 71 sells outlet throughout Indonesia. ADM also has such supporting facilities as Parts center, Vehicle Logistics Center, Learning Center, and Technical Center. Its production process involves a large number of component suppliers that includes 155 first tier local companies and 850 second tier companies. The ADM production process involves 507,000 workers (Iskandar, 2011).

The overall market share of ADM between 1980 –1996 was quite stable. It has always been in the top five in terms of the market share (Wicaksono, 2013). Similar to other companies in South East Asia, ADM was caught in the 1998 Asian Financial Crisis. Towards the middle of 1997, the Indonesian currency – Rupiah- began losing its value against the US dollar. Many companies and banks in Indonesia with short-term debt in American dollar could not repay and went bankrupt. During the 1998 Financial Crisis, ADM also suffered from debt and loss. ADM debt shot up to \$1.1 billion rupiah and lost 3.7 trillion rupiah due to the currency devaluation (Rinaldi, 2012). The overall size of the automotive market went down by 85% in 1998 and as a result production of automobiles by ADM went down from 78,000 in 1997 to 18,000 in 1998. The Crisis continued until 2002. ADM sold a large part of its shares to Daihatsu Motor Corporation. After 2002, ADM owned 50% and the DMC owned the other 50% (Soelaeman, 2011).

In 2004, ADM collaborated with PT. Astra Toyota Motor to produce low cost family cars - Avanza and Xenia. Both the models are made by ADM. Avanza is sold under Toyota badge while Xenia is sold under Daihatsu badge. The collaboration turned out to be quite a successful one. Since the launch of these two models, 400,000 units of Avanza and Xenia were sold and the models became the number one bestselling cars at that time. Daihatsu Xenia saved ADM from the prolonged crisis, and the model helped Daihatsu to achieve the second largest share of the passenger car market in Indonesia behind Toyota (Wicaksono, 2013).

In 2005, ADM production reached one million units for the first time in 32 years of its operation in Indonesia. The company was able to export its vehicles to 65 countries, spread over Southeast Asia, Middle East, Africa, and Latin America. Furthermore, since 2008, they were able to export some of their vehicles to Japan which is one of their major achievements, due to the fact that Japan has tight import control over the quality of passenger cars. In 2010, ADM produced, since its establishment in 1973, two million units, which is one of the biggest achievements of the company. In terms of their market shares in Indonesia, the company was able to reach 2<sup>nd</sup> position only behind Toyota (Andika, 2013).

In November 2007, ADM expanded its Jakarta plant to boost production capacity to 211,000 units a year from 97,000 units, becoming DMC's largest plant outside Japan. In 2008, ADM signed a deal with Toyota Motor Corp. to supply 18,000 minibuses and pickups a year to Japan. The automobiles are fitted with airbags and fog lamps to meet safety standards in Japan and

emission systems are adjusted to meet the Euro III standards to satisfy the automobile import regulations of Japan (Daihatsu Indonesia unit to supply 18,000 cars annually for Japan, 2008).

ADM, on 27 May 2011, began building a new plant in Industrial Area in Suryacipta, East Karawang, West Java. (PT Astra Daihatsu Motor, 2011). The Karawang plant covering a space of 70.000 m<sup>2</sup> land area costing US\$233.3 began operation towards the end of 2012. The new plant increased ADM's production capacity from 330.000 units to 430,000 units per year. The expansion is in line with the growth of Indonesian car market which is increasing year by year and also with the increasing demand for export markets (PT Astra Daihatsu Motor, 2011; Emerging Money, 2012). The ADM president claimed that the new Daihatsu plant design is suited to Indonesian conditions and will become the ideal car factory to make eco-friendly cars using green process technology (PT Astra Daihatsu Motor, 2011). In mid-2012, ADM announced investment of \$68.7 million to build a research and development center in the archipelago and is located adjacent to the plant in Karawang, West Java (Emerging Money, 2012).

### **Global corporate strategy shift**

Daihatsu decided to leave the North American market in 1992 and the Australian market in 2006 for reasons of stiff competition, low brand image, uncompetitive prices and declining sales. The challenge for a small car maker like Daihatsu was that although it did not have high brand image and yet the cars were quite expensive (Alison, 2011). The sales of Daihatsu cars fell heavily in 2005, despite the fact that the overall new-car market in Australia, for example, grew 7% (Daihatsu line-up, n. d). With its departure from developed markets, Daihatsu adopted three interrelated strategies: (1) Make Indonesia as the main parts supplier for Daihatsu for the Southeast Asian market; (2) develop new automotive technologies and (3) penetrate emerging markets from this base (Daihatsu Motor Company, 1998; Alison, 2011; Kubota and Pfanner, 2015).

### **Global manufacturing and supply base**

DMC adopted a plan to make Indonesia as its production base for a number of reasons. Indonesia with its largest population in the ASEAN region, low car density and yet rapidly expanding middle class has the potential to be the largest market in the region. DMC is planning to make Indonesia as the production base to develop low cost engines, to produce low cost cars that meet local preferences using parts procured from local suppliers and also as a base to export cars to countries in the ASEAN region and newly emerging markets. At a ceremony to celebrate export of low cost green car (LCGC) to the Philippines, a Toyota (senior partner of Daihatsu) executive said: "With exports including engines and CBU [completely built units] vehicles to more than 80 countries and regions, Toyota and Daihatsu consider Indonesia a vital global manufacturing and supply base. In 2013, we exported more than 138,000 CBU vehicles from Indonesia - over 80 percent of total CBU exports" (Toyota, 2014, paragraph 2).

In order to strengthen its competitiveness in the ASEAN region, DMC developed next-generation engines for ASEAN and launched them in Indonesia and Malaysia. The production cost of these high- performance and yet fuel efficient engines is quite low. One of the ways DMC could achieve these conflicting objectives is by using locally-procured parts (Kouketsu,



2015; Toyota, 2012). ADM plans to launch a new model in 2016 designed for emerging markets. ADM's R&D facility at its new assembly plant in Karawang in West Java worked with head office in Japan in the development of the new model (Pugliese, 2015).

Avanza is a multipurpose vehicle built by ADM, sold under Toyota badge is a locally produced car that meets the preferences of the local market. Between 2003 and 2014 ADM has produced 1,394,954 units. Among them 1,183,867 units were sold locally and 211,087 units were exported to 44 countries in Asia, Middle East, Africa and Latin America. ADM president claimed that expansion of the export market to the Middle East demonstrates that the international market recognized ADM's product quality. Toyota Group is focusing on the growth in emerging markets by providing vehicles that fulfill consumer needs (Toyota Indonesia, 2014). Toyota which is the senior partner of DMC is struggling in the Indian car market and is considering collaborating with DMC for its Indian market particularly in the area of less expensive cars. DMC is also quite keen to expand its market with less expensive cars. DMC sells cars that start from \$7,000-\$8,000 and aims to come up with even cheaper models to drive its business in emerging markets (Toyota asks Daihatsu to help in India, 2014).

### **Aligning procurement strategy with corporate strategy**

DMC launched the Mira e:S minicar in 2011. The Mira e:S – where 'e' stands for eco and 'S' stands for smart – travels 30 kilometers on a liter of petrol and is sold for US\$6,637. The car substantially increased DMC's earnings. This enormous feat could be achieved by introducing a number of improvements in manufacturing, engineering, procurement. The real secret to success, according to Kosuke Shiramizu, Daihatsu's chairman at the time, is not to use the keiretsu system (Shirouzu, 2015). Most Japanese business corporations are linked with one another in a network called keiretsu that works based on trust and loyalty. Toyota, the senior partner of DMC, is one of the most famous ones to use this keiretsu system (Aoki & Lennerfors, 2013). In this network, assemblers of automobiles in procuring components from their suppliers rely mostly on long term relationship based on trust and goodwill rather than on short term contracts (Lincoln and Gerlach, 2004). Prices of components are rarely market tested on an annual basis. As a result, although suppliers may supply parts of high quality but they may be more expensive than that are available from non-keiretsu suppliers (Aoki & Lennerfors, 2013).

DMC reduced close to \$1,000 in the manufacturing costs of each car by procuring components from non-keiretsu suppliers. DMC argued that Toyota produced finely engineered cars with highly durable parts for high-priced developed markets of the United States, Europe and Japan. The automobile market is changing. Since the beginning of this century, emerging economies that also includes Indonesia collectively buy half of the automobiles sold worldwide today. "They will account for an estimated two-thirds of overall global demand by 2020, when sales are expected to reach 100 million cars annually". Drivers in markets like Indonesia and Malaysia replace parts more frequently and do not expect them to last for five to 10 years (Shirouzu, 2015). This shift in procurement policy allowed ADM to source components from local Indonesian suppliers. The production process of Avanza and Xenia involves 830 suppliers and the use of local components at Avanza has now reached 85 % and is expected to continuously increase (Toyota Indonesia, 2014).

**Expanding local market**

The McKinsey Global Institute forecasts that an additional 90 million people will join Indonesia’s consumer class by 2030 (Jakarta Globe, n. d.). Indonesia is the largest economy in Southeast Asia with a growing middle class and a population of 240 million. With an economy growing on average by 6 percent in the past few years, Indonesia is an attractive market for car sellers (Yulisman, 2012). Indonesia’s automotive industry experienced some drastic changes in recent years. Indonesia, originally regarded as a mere production base for its low labor costs, is fast changing into a major car sales market. Since 2008, as the table below shows, domestic car sales in Indonesia has continuously increased and given that the country’s per capita car ownership is still relatively low, there is room for more growth (Expansion of Indonesia’s automotive industry: Rising exports to Asia, 2014).

Table1: Growth in Indonesian car market and exports

	2008	2009	2010	2011	2012	2013	2014
Indonesia's Car Sales (number of car units)	607,805	486,061	764,710	894,164	1,116,230	1,226,199	1,300,000
Indonesia's Exports (number of car units)	100,982	56,669	85,769	107,932	173,368	170,907	200,000

Source: Expansion of Indonesia’s automotive industry: Rising exports to Asia, 2014

Most of the managers interviewed believe that one of the main reasons behind the appointment of Mr. S as the President of ADM is that DMC intends to expand its market in Indonesia. For example, one interviewee says:

‘For me, it is all about their strategy to expand their market in Indonesia, because Indonesia is actually the biggest [automobile] market outside Japan, and our economy is growing positively’.

This claim is supported by the fact of continuously expanding Indonesian car market. Table 2 below also shows that DMC has continuously increased its market share. Currently DMC’s market share in Indonesia is the second largest, only behind Toyota. However the figure has increased only a little in 2014 because the overall car sales in Indonesia have decreased by 1.78% in that year.

Table 2: Comparison market share

No	Brand	2009	2010	2011	2012	2013	2014
1	Toyota	186,922	280,711	287,692	406,026	434,447	399,746
2	Daihatsu	77,513	115,703	125,853	162,742	185,942	185,950
3	Honda	39,570	58,849	45,602	69,320	90,878	159,147
4	Suzuki	44,689	81,572	68,832	126,577	162,467	154,923
5	Mitsubishi	61,735	102,005	117,736	148,918	156,363	141,962
6	Nissan	21,440	37,480	52,296	67,143	60,951	33,789

Source: Ikhsan, 2013

Indonesia has the potential to have a very large car market because currently the car density is quite low and the economy is growing very fast which should increase the purchasing power of Indonesian consumers to buy cars. Many interviewees brought up this fact that car density in Indonesia is quite low compared to the neighboring countries. As one of them says: ‘Our car density is very low compared to, for example, [that of] Malaysia and Thailand’. Statistical evidence supports this claim. In 2015, Malaysia is the country with the highest car density in ASEAN with 351 cars, followed by Thailand with 196 cars and Indonesia which is the largest country in ASEAN by population only accounted for 59 cars per 1000 inhabitants (Thailand Automotive statistics, n. d.). Another interviewee summarizes:

‘In my opinion [they have appointed a HCN as the CEO] because they have been trying so hard to expand their market in Indonesia. For the last 10 years we have been trying to read the market taste in Indonesia through the marketing that had been done during our crisis time. Furthermore, it is proven by our focus now in producing low cost car which cost less than rupiah 100 million’.

**Localization**

Other interviewees add that DMC has appointed a local as the CEO of ADM because the company is trying to expand the market with a focus on producing low cost cars that takes into account local demand conditions. Indonesian consumers prefer low cost multipurpose vehicle (MPV) family cars (Australian After Market Automotive Association, n. d.). In 2014, low cost MPVs accounted for almost 30% of the total car market in Indonesia (Octama, 2014). Daihatsu cars in Indonesia are localized for Indonesian needs and they are built with participation from Indonesian engineers. They are fuel-efficient, affordable, compact, and multi-purpose automobiles. They have long wheelbase, generous luggage space, spacious interior and are sturdy enough to carry five adults. They have higher ground clearance enabling driving on uneven road surfaces and in flooded conditions. Last, they have a turning radius that enables easy maneuverability on narrow roads (Toyota, 2012). The company first introduced Daihatsu Xenia, an affordable family car with a price just under US\$7000. The model was a great success in terms of market share. Buoyed by Xenia’s success, ADM introduced two new models of family cars: Daihatsu Gran max and Daihatsu Ayla. All three models, as the Table 3 below shows, continue to be the greatest contributors to Daihatsu’s market share in Indonesia (Sagar, 2015; Gasnier, 2013; Kuswaraharja, 2013).



Table 3: Details of Daihatsu Sales Report in Indonesia

Type of cars	2009	2010	2011	2012	2013	2014
Xenia	41,487	63,141	66,835	73,418	64,611	46,710
Ayla	-	-	-	-	19,000	40,775
Gran Max	-	-	-	28,979	63,690	71,276
Other models	36,206	52,562	59,018	60,345	38,641	27,189
Total	77,513	115,703	125,853	162,742	185,942	185,950

Source: Kuswaraharja, 2013

### Loyalty

One of the main features of the Japanese management style is lifetime employment or better understood as lifetime commitment (Hasegawa, 1986; Gill & Wong, 1999). Lifetime employment provides opportunities to companies to test the loyalties of managers. Mr. S has been working for ADM for close to 40 years. He joined the company as a low level production staff (Table 4). The majority of interviewees claimed that his loyalty demonstrated by his long service to ADM contributed greatly towards his appointment as the President Director of ADM. Moreover, the interviewees also mentioned that Mr. S was able to gain trust from the parent company. Mr. S. himself says:

I think one of the most important things is that, I was able to prove to them with my loyalty and my performance also. I have been working in PT. Astra Daihatsu Motor for more than 30 years, so I think the principle [Daihatsu Motor Corporation] has trusted me enough to make me the leader of PT. Astra Daihatsu Motor.

Another manager supports this claim when he says: 'I have been working in PT. Astra Daihatsu Motor for almost 10 years now. The expatriates, I think, have some kind of trust issue with host country nationals (HCN). I think Mr. S is trustworthy, because he has been working for almost 30 years'. Another manager adds that the Japanese as a nation are very cautious. They would not appoint anyone who they did not trust. Mr. S, by his long commitment to the company, demonstrated that he is trustworthy.

Table 4: Mr. S’s career path in PT Astra Daihatsu Motor

Job Title	Year
Management training	1973 (3 month)
Permanent Staff in PT. Astra Daihatsu Motor	1973 - 1978
Supervisor in PT. Astra Daihatsu Motor	1978 - 1982
Head of Division in PT Astra Daihatsu Motor	1982 - 1984
Assistant Manager in PT Astra Daihatsu Motor	1984 - 1989
General Manager in PT. Astra Daihatsu Motor	1989 - 1991
Director in PT Gaya Motor, a subsidiary PT. Astra international	1991 - 1998
Director of Technical Engineering Manufacturing in PT. Astra Daihatsu Motor	1998 - 2006
Vice President Director of PT. Astra International	2006 – 2010
Director of PT. Astra International	2010 - 2011
President Director of PT. Astra Daihatsu Motor & Director of Daihatsu Motor Company	2011 - Now

Sources: Iskandar, 2011; Soelaeman, 2011; Nugroho, 2014 and interview with Mr. S.

### Personal values

Many interviewees also stated that Mr. S’s personality had also played an important role in his selection for the top position by the parent company. The majority of interviewees mentioned that Mr. S’s personal values were very similar to those of the Japanese expatriates. For example, Mr. S and the most Japanese expatriates in ADM have similar characteristic in terms of punctuality. Similar to the Japanese expatriates, Mr. S likes to see that their staff comes and leaves the office on time, and also finish their tasks on time. As one interviewee says:

Mr. S is very disciplined and punctual just like our expatriates. For example, he always comes on time to the office: The office hour starts at 8.30 a.m., however, Mr. S always comes at the latest at 7.30 am. He is rarely late, and he dislikes it when staff finished their tasks not on time.

### Turnaround

Mr. S’s performance has also contributed towards his appointment as the President Director. He has been praised by his employees and also by DMC managers for achieving the target set for the subsidiary. During the appointment ceremony, one DMC manager mentioned that “they choose Mr. S because of PT. Astra Daihatsu Motor’s success in achieving the target of selling 1 million units within five years”. Mr. S himself said that it took a lot of determination to achieve the target. During 1998 – 2002, ADM faced an existential crisis. As a consequence of the devaluation of Rupiah, DMC debt reportedly reached \$1.1 billion rupiah and suffered from a loss that amounted to 3.7 trillion rupiah. Moreover, the overall car market decreased by 85% in 1998. The hard times continued until 2002 and the share market value of PT. Astra International decreased from 50% to only 31.9% (Soelaeman, 2011).

Mr. S, with his determination, succeeded in turning the company around. He proposed to create a low cost MPV car (Avanza) after doing market research. This idea was brought to Japan and was approved. As he says:

I have heard from the principle [DMC] that they were proud of my performance during the crisis because at that time, we almost cancelled the Xenia and Avanza projects. But I insisted that we have to do the project, and it turned out to be a successful car. In terms of sales in Indonesia we were able to reach number 2 spot for the first time in 2005 behind Toyota.

In pursuing this project, Mr. S had to overcome stiff resistance from the parent company. There was claim from the DMC that ADM should not be allowed to manufacture the car because the Indonesian subsidiary does not have the capability to produce quality cars. Mr. S, who then was the director of the Technical Engineering Manufacturing division, disagreed and insisted that the project needs to be pursued. He benchmarked ADM with DMC and promised that two models (Avanza and Xenia) produced by ADM would satisfy the conditions of quality, cost and delivery (QCD) in accordance with the Japanese standard.

### **Sociable**

The interviewees also mentioned that Mr. S is very sociable. He maintains cordial relationship with expatriate Japanese managers, with employees and also with the national and local media. Interviewees perceive that his sociable nature has also contributed toward his appointment as the President and Director of ADM. As one interviewee says:

He is close with the Japanese expatriates in our company; he even tried to learn to play golf so that he could accompany Japanese expatriates on weekends.

The other thing that frequently brought up by the interviewees is that Mr. S has a good relationship with the media in Indonesia. One press reporter mentioned that, he is very approachable and easy to be contacted and states: “[When I interviewed him], I did not feel that I was dealing with the President Director of PT. Astra Daihatsu Motor” (Suarnaya, 2011).

Another interviewee adds:

Sociable means he is having close relationship with the media. Many people from media stated that he is easy to contact, and he does not hesitate to share some of information with them. I think he is also quite close with some of the Japanese expatriate in our office.

### **Leadership Capability**

Many interviewees give positive opinion regarding the leadership capability of Mr. S. Some of them mentioned that Mr. S is more capable in leading ADM than many Japanese expatriates. As one interviewee say:

He is capable, I think, even more capable than the Japanese expatriates. Not just him only, actually, I feel that many host country national's (HCN) are as good as the expatriates in here. To be honest, many expatriates are asking host country nationals (HCN) for advices; some of them have limited knowledge and are not capable of doing certain tasks. I am sure the main aim for headquarter to send them to our office is to

give us knowledge, but frankly they did not give much knowledge. I felt like many of them came to Indonesia just for leisure.

Interviewees also mentioned the barriers that they encountered when dealing with Japanese expatriates. Many of them felt that the Japanese expatriates put up barriers. They do not come across as approachable persons. Moreover, communication barrier between the Japanese expatriates and host country national (HCN) employees is also big issues since many of host country national (HCN) employees could not speak English very well. This may be another reason behind the appointment of Mr S. As one interviewee says:

“I feel that Mr. S is more approachable compared to Japanese expatriates. May be, it is because we are of the same nationality, and we speak the same language. For example, if we have some problem regarding our tasks, we could just simply ask Mr. S for suggestion, but if we were dealing with expatriates, I’m sure most of the staff in here are more reluctant to ask some advices [from expatriates], maybe also due to the language barrier.

### **Employment practices of other companies**

Interviewees also argued that DMC in appointing a HCN at the top most position of its Indonesian subsidiary was also guided by a strategy of creating subsidiary friendly image in the business world. In doing this, the company is following the strategy of the Toyota Motor Corporation. Toyota also appointed a HCN as the President Director of PT. Toyota Astra Motor in 2002.

As one interviewer says:

“I think their main reason is, for sure, [a part of their] marketing strategy, because we know that Toyota in Indonesia is ahead when it comes to this matter. They were able to choose a host country national Mr. D to become their President Director, and it turned out to be a successful strategy. So I think Daihatsu is following the Toyota’s footsteps’.

Furthermore, during the interviews, Mr. S also mentioned that the DMC is not as rigid as it used to be. They are willing to choose host country national (HCN) in the top position. As he says:

“I am sure it is part of their marketing strategy, but I am also aware that the Japanese have started to loosen up a little bit. [They are] not as rigid as they used to be. That is why they were able to put some of our locals in top management positions.”

### **Discussion and concluding comments**

It has been argued that DMC, in appointing a HCN as the CEO of ADM, aligned its corporate, procurement and human resource strategies, took account of the fact that the CEO has contributed to the turnaround of the subsidiary and that the HCN has work values quite similar to those of his Japanese counterparts. In support of the argument put forward in this paper, one recent study of MNCs operating in Taiwan, Tseng and Liao (2009) found that MNCs appoint HCNs as CEOs of their subsidiaries when there is a large cultural difference between home country and that of the host country and when MNCS intend to take locational advantages.

It has been mentioned at the beginning that most Japanese MNCs rely on PCNs in managing their overseas subsidiaries. DMC made a difference to this established policy. It is possible that

there are a number of explanations for this change of policy. Legewie (2002, 908-909) reports that Japanese MNCs using China as a production base differ in their view of employing PCNs in the subsidiaries from the ones that use China as a market for their products. Host country market oriented companies “suffer decreased ability to be flexible in their response to the market because of limited information flows from the bottom”. It has been show above that DMC sees Indonesia not only as a production base but also a market that is fast growing and likely to be the largest market in South East Asia. It is possible that DMC has considered the fact that a HCN CEO could act not only as a source but also as a channel of information about the larger market.

Control within MNC in Japan works mainly through socialization and networks. It works through ‘socialization by sharing organizational values and goals’ where ‘informal and horizontal exchange of information flows between all managerial levels’ (Legewie, 2002, 904). Japanese corporations rely on PCNs to control their overseas subsidiaries because they believe HCNs are not socialized in Japanese management values and thus are incapable of ensuring the type of control Japanese corporation intend to achieve. It can be surmised that DMC in appointing Mr. S as the CEO of their Indonesian subsidiary, believes that Mr. S is socialized in Japanese management values through his long working experience in Japanese corporations and is thus capable of taking the place of a PCN.

DMC has made an excellent start, however, the more fundamental challenge, remains which Bartlett & Yoshihara (1988, 26-27) identify as one of the ‘limitation of the Japanese management system in the international environment’. They add:

To participate in the [Japanese management] system one needs a thorough understanding of the complex culturally based decision processes, an established internal network of contacts, and an ability to communicate intensively in Japanese. The very nature of the system makes it virtually impenetrable to non-Japanese except at the periphery, and even then, in the most superficial way. In almost all Japanese MNCs, the core of the decision making process remains purely Japanese. (Bartlett & Yoshihara (1988, 26-27)

The challenge for DMC now is to ensure that Mr. S participates effectively in the decision making process of ADM and DMC.

This study has focused on the issue of employment of HCNs as CEOs of MNC subsidiaries and has added to the contributions made by Tseng & Liao (2009). The study has relied on a triangulation of secondary and primary data collected through a small number of interviews. Thus the results reported and claims made in this study should be viewed as indicative only. Future research should examine how strategies pursued by individual automobile corporations fit into the changes that the global automobile industry is currently passing through. Future scholars interested in Japanese management should assess whether the international employment strategy pursued by DMC in Indonesia is an episodic one or representative of a general pattern that all Japanese automobile corporations are going through.

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