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INTO INDONESIA

PAGEUP PEOPLE RESEARCH

Talent management essentials in an emerging democracy



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Message from the CEO

In a recent business trip to Jakarta I was freshly reminded of the vibrance and dynamic growth of Indonesia. At a time when the major advanced economies of the world are struggling to regroup and are still undeniably constrained by the lingering effects of the Global Financial Crisis, the positive business atmosphere and energy in Indonesia are palpable. While Indonesia does not make a lot of noise on the world stage, it has an increasingly potent voice: a large population, an aspiring democracy and great ambitions for its national future.

A significant proportion of the PageUp People client base have existing and growing business operations in Indonesia. From energy, mining and construction to education, retail and financial services, our multinational clients are seeing and investing in the opportunities presented here. Capital and infrastructure investments are being closely followed by investment in human talent and, as we see everywhere across the globe, this asset is in short supply.

This white paper continues our series on the high growth markets. We aim to assist our current and future clients increase their awareness and understanding of doing business and managing talent in environments that may be very different from those in established western markets. We believe that the future lies in much greater global integration, and talent-enabling technologies are essential to unleashing the human potential necessary for workforce optimisation.

One of my key takeouts from this paper is that increasing globalisation does not mean cultural homogeneity. More than ever, understanding what is unique and distinctive about local markets is a critical input to global strategies and ultimately, organisational success.

I trust it delivers you insights and assists your talent management efforts.

A stylized, handwritten signature in dark ink, appearing to read 'K. Cariss'.

Karen Cariss
Global CEO

Introduction

The world's largest archipelago and home to more than 245 million people, Indonesia is the fourth largest country by population (behind China, India and the US). It has the largest concentration of Muslims (86.1%), represents the third largest democracy and is the only South-east Asian member of the G20¹.

Often grouped among the ASEAN-5 (Indonesia, Malaysia, Thailand, Vietnam, Philippines) Indonesia is situated amongst the high growth markets, enjoying strong economic growth for the foreseeable future. This one trillion dollar economy has averaged GDP growth rates around 6% over the past three years, and remains externally resistant to the global economic downturn as a result of strong internal consumer spending, trade surpluses and high levels of foreign direct investment.

The World Bank forecasts a multipolar world, in which more than two poles of growth occur concurrently around the globe. The emerging markets are key to this multi-polarisation, with Brazil, China, India, Indonesia and the Russian Federation identified as key contributors².

However growing pains plague the emerging world – from infrastructure demands to environmental degradation to political and social systems. Containing corruption and terrorism are additional challenges for Indonesia. Amongst the biggest strains caused by high growth are those on human capital resources. Despite enormous populations, the skills required to maximise opportunities in the emerging world remain in short supply.

Up until recently the GDP output from Indonesia has been ostensibly based on agriculture and manufacturing. The growing services sector is changing this balance and with it, the type and quantity of skills required. More Indonesians are pursuing higher levels of education than ever before, but their numbers are being absorbed by the labour market as quickly as they can be produced, falling way short of demand.

As a result, talent management has been elevated to a critical success factor for business. The combination of growth-driven demand and a shortage of supply highlights the need for Indonesian firms and multinational corporations (MNCs) operating in this market to invest in efforts to strengthen and support the capabilities of the labour force.

In this white paper, we explore the unique human capital management challenges confronting MNCs seeking to enter or expand their operations in Indonesia. As is the case with all the tiger economies, rapid economic growth spurs both great opportunities and distinct challenges. MNCs look to the east with intrigue and ambition – success will be contingent on understanding how best to adapt people and practices to achieve their potential in this foreign and complex environment.



Establishing good relationships with relevant officials is important to facilitate business activity

The Indonesian business landscape

Jakarta, 12th largest city in the world, capital of Indonesia with a population just short of 10 million is situated on the northwest coast of Java. Jakarta is the hub of Indonesia's political, economic and cultural scene.

Indonesia has experienced much change and upheaval in its modern history. Colonised by the Dutch in the early 17th century, Indonesia claimed its independence in 1945. Its founding president, Sukarno envisioned Jakarta as a great global city and initiated many projects. Sukarno was replaced in 1967 by President Suharto following a military coup. Suharto led an authoritarian government for 31 years until he was forced to resign during the Asian Financial Crisis which saw the Indonesian rupiah collapse and the country plunge into poverty and corruption. In 2004 Indonesia elected the current president, Susilo Bambang Yudhoyono.

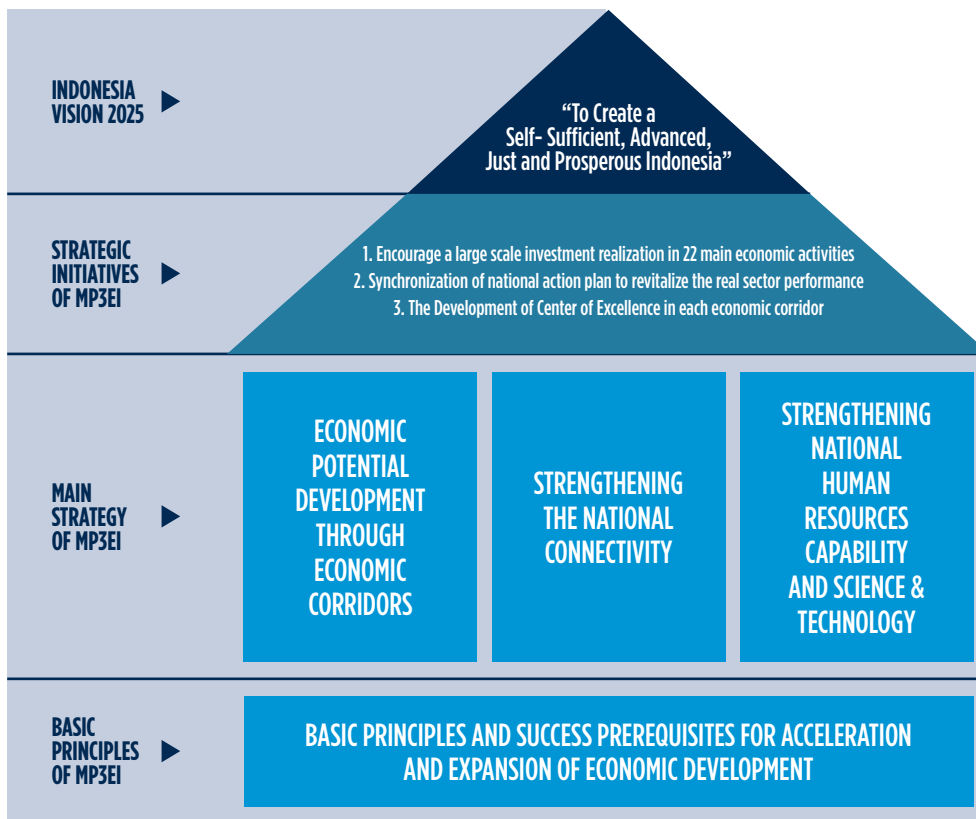
BUREAUCRACY AND CORRUPTION

A common feature of all emerging markets is the under-developed legal and regulatory structure, typically manifested in high levels of bureaucracy. In Indonesia, national officials (*pegawai negeri*) control the licenses, permits and information that business requires to conduct operations. Establishing good relationships with relevant officials is important to facilitate business activity, but delays are typical and should be factored into project and business plans. The government has recognised the need to reform bureaucratic processes and committed to reducing the twelve stage process, requiring at least 105 days to launch a business down to just three stages, requiring a maximum of 23 days³.

Of the 178 countries ranked in the annual Corruption Perceptions Index⁴ in which '1' represents the least corrupt, Indonesia ranked 100 in 2011. While this places Indonesia in the moderate to highly corrupt category, it is an improvement from 2010, when the country was ranked 111. With Indonesia keen to take its place on the global stage, external and internal pressure for government reforms is mounting, particularly relating to infrastructure development and eliminating corruption in government. Concerns about the slow pace of these changes has recently led President Susilo Bambang Yudhoyono to suffer a substantial drop in public opinion polls, from 52% in 2010 to 38% in 2011⁵.



THE MASTER PLAN



Indonesia is working steadily toward becoming a recognised international power

Indonesia has an enormous reform and growth agenda to achieve the country’s future vision. Its plan to be ‘locally integrated and globally connected’ underpins the growth premise outlined in *Masterplan: Acceleration and Expansion of Indonesia Economic Development 2011-2025*.⁶ The master plan establishes initiatives to allow Indonesia to overcome barriers to growth across a broad spectrum.

One of the three pillars supporting this plan involves the strengthening of human resources capabilities, recognising that human capital is an essential driver of innovation and national prosperity.

Under this initiative Indonesia aims to address the current shortcomings of its national education and training programs and facilities with a view to significantly increasing the quality and quantity of skilled labour available in the future labour market.

Indonesia is working steadily toward becoming a recognised international power with a political and economic environment that continues to attract high levels of foreign direct investment and underscored by a strong local economy.



Indonesia is following the trends of its Asian neighbours with increases to minimum wages and improved working conditions high on the agenda

Talent management in Indonesia

The performance of Indonesia's economy and the country overall have been linked to the quality of human capital available. Past low levels of performance, compared to regional peers and OECD countries highlight the corollary with low education standards and the flow-on effect to the workforce⁷.

Strategic human resources management (SHRM) philosophies and associated practices are only slowly beginning to emerge in Indonesia, predominantly driven by multinational corporations (MNCs) whose global operations adopt them. A study of SHRM in the Indonesian public service showed that despite government efforts to decentralise many functions in the post Suharto era, the management of human capital continues to be highly centralised. It remains subject to low levels of transparency, a compliance rather than performance focus, and creates an environment in which inequity, nepotism and lethargy are rife⁸.

SHRM requires that the functions associated with talent management (recruitment, performance management, training and development, promotion, succession management and rewards) are integrated. As Indonesia becomes more comfortable in its new democratic skin and increasingly more prominent in global affairs, advanced approaches will gain momentum. But for now, fully integrated talent management methods are more a concept than a practice and human resources practitioners have some way to go to elevate HR to a strategic level.

A key attraction for MNCs investing in operations in Indonesia has been the cheap supply of labour. This has been a primary consideration for labour-intensive industries such as textiles, electronics and motor vehicle manufacturing. Trade unions protect the rights of workers, many of whom are low skilled and poorly educated, but union membership is low at under 7% of the workforce, and has been falling for the past few decades⁹. Indonesia is following the trends of its Asian neighbours with increases to minimum wages and improved working conditions high on the agenda. As a result, MNCs can expect higher production costs associated with higher labour costs, and strategic business investments in Indonesia will need to capitalise on local consumption potential as well as production.



Six factors influencing talent management in Indonesia

1 Education constrains the workforce pipeline

The feeder pool for a country's workforce is its youth, and despite good advances in the past decade, Indonesia's education system is still unable to deliver the quantity of quality skills required to meet the country's needs.

Low levels of public spending on the education sector have allowed Indonesia's youth to significantly fall behind OECD and regional literacy averages. Spending as low as 1.4% of GDP was increased to 4% by 2002, but still falls behind that required to educate the nation¹⁰. For example, in international assessments of students' reading abilities, Indonesian mean scores were 393, compared to 27 middle economies at 425, and the OECD mean of 492. Even worse than basic literacy skills are general thinking and behavioural skills, which 40% of employers believe to be unsatisfactory for application in the workplace. In part this can be explained by poverty and difficulties gaining access to limited school facilities, especially in regional areas.

However a further limitation is highlighted by the fact that 57.4% of Indonesian teachers fail to meet the minimum teaching standards required. As a result, quality of education outcomes is compromised, again highlighted by the percentage of Indonesian students below proficiency levels at 65.7 compared with the OECD average of 21.3.¹¹

As is the case elsewhere, skilled workers in Indonesia are in short supply. The Government's tight restrictions on expatriate recruitment, especially in roles managing locals, require that the requisite skills for the future be home grown. Each year, 3.3 million Indonesian youth leave the education system to join the labour market. Of that, over 70% will have attended elementary school only, 15% advanced to high school, and only 4% completed university education. There remains a significant disparity between the total number of years of education children of Indonesia receive: 6.1 years, compared to 10.8 years for industrialised countries. This shortfall is forecast to take over 20 years to be resolved¹².

The result is a workforce dichotomy, where on the one hand, unemployment is extremely high for graduates of junior and secondary school (as much as 50%), whereas on the other, there is a dearth of college and university graduates¹³. Workforce shortages are already being reflected in the increasing ratio of wages for university graduates compared to primary school educated, rising from 3.8 to 4.4 in the past ten years.



The bottom line is that Indonesia's education system is not keeping pace with the demand for skilled workers.

The result is pressure on the workforce to improve productivity and contain wages for top talent.

Impact of Indonesia's education system on talent management

- The mismatch of supply and demand for skilled labour creates a war for talent
- The need for corporate sponsorship and implementation of comprehensive training programs is necessary and well received, but requires a significant training and development budget
- Speed to competency is reduced and lowers productivity
- Advanced technical and specialised skills must be sourced from international markets
- Low willingness to take on leadership roles or accountability for tasks or projects



Ramadan

The month of Ramadan is an especially important event in the Islamic calendar.

A time of great religious significance, it requires that Muslims abstain from food, drink and smoking from the first prayer in the morning, the **Subuh** usually around 4:30am, to breaking of the fast, **Buka Puasa**, around 6:00pm.

At this time, Muslims join their friends and families in the evening meal and prayers, celebrating their faith and community.

2 Communication and religion

COMMUNICATION

Selamat pagi (good morning)! While English is commonly spoken in professional circles, the bulk of the Indonesian workforce speaks the native Bahasa Indonesian. Multinational expats can gain considerable advantage in managing local employees by speaking the language. Learning Bahasa is seen as a sign of respect for local culture and a symbol of commitment.

In addition to the spoken language, Indonesians are also sensitive to the way in which verbal communication occurs. Indonesians are generally polite and amicable, and may be offended by strong or rude language. Their combined desire to be polite and save face may also cause them to appear to understand and/or agree, when in fact they do not.

Communication can also be a challenge as Indonesians are generally indirect in their approach. They do not necessarily say what they really mean for fear of offending or embarrassing someone. They strive to avoid confrontation or conflict in favour of maintaining harmonious relations. The resulting misunderstandings can leave westerners confused and frustrated¹⁴.

RELIGION

The world's most populous Muslim country may well present some cultural challenges for multinational corporations with western and predominantly Christian origins. In the business context, Islamic traditions and practices manifest themselves in the following ways:

- there are five daily prayer sessions Muslims must attend
- Ramadan occurs once a year for a period of one month and requires Muslims to fast
- Muslims refrain from consuming alcohol, so gifts or celebrations involving alcohol are not appropriate
- women are accepted in business however it is imperative to dress conservatively and in negotiations, women are advised to be accompanied by a man.

During Ramadan, westerners should be respectful by not eating or drinking in front of Muslim colleagues and accommodating changes in performance and productivity arising from the physical trials of fasting.

In addition to Islam, there are numerous other religions in Indonesia, including Buddhist, Hindu and Christian. Whatever their faith, Indonesians tend to be deeply religious and find atheism difficult to comprehend and confronting. It is necessary to respect religion and show tolerance and empathy for associated ceremonies and rituals.

Impact of communication and religion on talent management

- The indirect communication style of Indonesians can lead to misunderstandings. An employee that says 'yes' to an idea or request may not mean that he agrees with it, only acknowledges it. Indonesians do not like to say 'no' and may therefore give the impression they are on board, but then take no action to fulfill the task.
- Respecting Indonesian employees religious commitments may require flexibility in the workplace.
- During Ramadan, disrupted sleep and eating patterns can take a toll on Muslim employees, reducing punctuality, performance and productivity. Reasonable accommodation of these factors should be exercised.

3 The Bapak

The word *Bapak* means 'father' and is used to denote those of high status in Indonesia. Bapak is a title given to senior officials and managers that hold revered positions in organisations, government and the community. While most are men, women can also obtain this status and are referred to as *Ibu*. In the workplace, it refers to the 'boss'.

In business this status is gained by holding a position of authority and importance. The hierarchical structure of Indonesian society means that those considered to be Bapaks expect deference and obedience from their subordinates – anyone younger or of lower seniority. That said, the Bapak is expected to be a guardian of office harmony and therefore will most likely consult with his direct reports, gather their input and opinions, before making a decision.

The Bapak is expected to take instruction from none other than his superiors. He is a key decision maker and his position commands respect. Senior meetings and negotiations are highly likely to involve a Bapak and failing to recognise their status through inappropriate conduct, such as impoliteness, forcefulness or impatience, is considered highly disrespectful in Indonesia.

In return for high levels of respect and obedience, Bapak are expected to support and protect the wellbeing of their employees. Business relationships are personal relationships in Indonesia – there is no distinction between what is professional and what is personal. The Bapak maintain a paternalistic care over their employees and may, for example, provide an employee with assistance in the education of their children or with financial problems.

The Bapak will often use intermediaries or facilitators to represent them. This helps especially if there are sensitive or challenging matters to deal with that may cause loss of face for one or more of the parties involved.

Expatriates working in MNCs in Indonesia are likely to be senior managers and executives, and as such, are viewed as Bapak by their employees. This status brings with it respect and obedience, but the Bapak must also honour the paternalistic aspects of their role. Managers that are rude, harsh or offensive bring disharmony to the workplace. Instead they are expected to be disciplined but caring, demanding but supportive.



The Bapak is the patriarch and head of Indonesian social hierarchy.

'Father' in the community and 'Boss' in the workplace.

Impact of the Bapak on talent management

- The Bapak will hold senior positions (management and leadership) and will be respected for their hierarchical position.
- Indonesian employees expect their Bapak to foster their concerns and provide paternalistic care, as a father would for his children.
- The Bapak are expected and required to make key decisions, which are then followed without question by subordinates. This lends itself to a more autocratic or authoritarian leadership style.



4 Cultural factors

In addition to language and religion, several other factors underpin Indonesian culture:

HIERARCHY

Indonesian society is strictly hierarchical and this is highly evident in the workplace. Managers holding senior positions are expected to make decisions, give directions and provide leadership. Their subordinates do not question or challenge their directions or decisions. Status is situational – the same person may be of a low status in the workplace, yet of high status in their community, perhaps due to age or heritage. It is important to appreciate the complexities of hierarchical status in Indonesia.

AGE

Maturity is a badge of honour and gains respect in Indonesia. Men under the age of 40 are not considered mature, and may be excluded from involvement in key decisions. The young defer to their older colleagues in the workplace. Community elders are highly respected and hold high status.

TIME

Time is money. Not in Indonesia. Time is by no means unimportant to Indonesians, but where they place their time and its relative value is different to that of westerners. An expatriate manager is likely to view project deadlines, due dates and time-bound schedules as concrete. Failure to meet them has serious consequences. Indonesians do not like to be rushed and prefer to devote more time to developing relationships, gathering group consensus and weighing up ideas. The need to complete a task by a certain time or date is far less important.

SAVING FACE

Face, the term used to describe the outward perception of self worth and dignity, is of crucial importance in Indonesian culture. A manager humiliating or reprimanding an employee in a public area is causing the same emotional pain that a child experiences when chastised by a parent. To save face, employees will go out of their way to appear agreeable, at the expense of reporting possible errors or other bad news. This avoidance to confront negative situations can compromise projects or tasks, but is seen as a necessity rather than cause embarrassment and loss of face¹⁵.

RELATIONSHIPS

“Never write if you can call, never call if you can meet”. One of the fundamental hallmarks of Indonesian culture is personal relationships. The importance of trust and respect in effective business dealings requires that authentic personal relationships are established and maintained. This takes time and many westerners become frustrated that they cannot simply get a task or project completed.

COMMUNITY

The business world and social communities exist in close cohabitation in Indonesia and it is expected that corporations will contribute to their local community. Neighbourhood councils represent small community units (called *Rukun Warga*) who meet monthly to discuss issues in their domain. These council meetings are driven by community consensus, and are invaluable to businesses requiring permits, needing to resolve conflict and even crime protection¹⁶. Without the support of their surrounding communities, multinationals may encounter extensive delays, obstacles and an uncommitted workforce. Indonesians will place considerably more importance on family and community than on individuals and business.

BUSINESS ETIQUETTE

Every culture has its norms and taboos. Some that should be integrated by westerners into good business practices in Indonesia include¹⁷:

- Give and receive items with your right hand (the left is considered unclean)
- Print business cards with your title and qualifications and preferably in English and Chinese (there are many Chinese-Indonesians in business)
- Present your business card with your right or both hands
- Use a softer grip when shaking hands
- Prolonged eye contact is perceived as staring and confronting
- Arrive for meetings on time, but don't expect your Indonesian counterpart to do so
- Offer refreshments in meetings (water, tea, coffee)
- Dress in business attire (casual wear is rarely worn)
- Gifts are not expected, but if you receive one, accept it graciously and do not open it in front of a group.



Impact of Indonesia's culture on talent management

- Indonesians will defer to the hierarchy to guide their actions
- Older employees and managers will be respected over younger, so youthful emerging leaders must demonstrate skill, tact and patience
- The more flexible approach by Indonesians to time may manifest in poor punctuality, meetings that start and finish late, and a perceived lack of urgency in workers
- Disciplinary actions or performance critiques should be done in private so the employee can retain dignity and face among their colleagues
- Harmonious relationships among workgroups are highly valued and key to engagement and retention
- Community values predominate and underpin individual behavior. Therefore recognition of the community in the workplace positively associates the business with these values.



There will be more:

Simplicity
Flat structures
New technology
Social networking
Transparency
Development of internal talent
Working from home
Virtual offices
Pay for performance
Flexibility
Project based roles
Matrix organisations
Multi-skilling
Corporate knowledge centres

5 Changing mindsets and expectations

Winds of change are sweeping across south-east Asia and Indonesia. The Government's Master Plan identifies and plans for the significant change required to position the country advantageously for the future.

With more than half of the population aged under 30, Indonesia is primed for a generational shift that will support the transformation of this liberal democracy. The issues of education and corruption are high on the agenda of Indonesia's youth, with frequent protests challenging progress and the slow pace of change.

Already this has manifestations in the business world. Organisations, both local and MNCs, are looking beyond past and current business practices and modernising.

Structurally, companies are reviewing their organisational design. Indonesian human resources managers envisage a workplace with flatter hierarchies, greater flexibility including remote work environments and higher levels of transparency. Roles may become more short term and project based and multi-skilling will be encouraged. Organisations will adopt new technologies, including unified talent management systems to optimise performance and productivity, as well as the enterprise use of social media. Counter to Indonesian culture, performance will become a central feature, with pay for performance practices already gaining momentum. And to ensure the skills and capabilities of workers are continuously aligned to the needs of their organisation, the development of internal talent through the advent of corporate knowledge centres and universities will be elevated and prioritised¹⁸.

Many of these changes point to a radically different Indonesia in future. With many current practices deeply embedded in both social and organisational culture, Indonesians will have to adapt considerably.

The open-minded approach and willingness to learn displayed by most Indonesians primes them positively for change. Many have already endured significant change as the country has shifted from a colonial to a dictatorial to a democratic state. A positive outlook, deep faith and a patriotic belief in their country is evident in this emerging economy.

Impact of changing mindsets & expectations on talent management

- There is a willingness of local and foreign firms to explore, adapt and integrate global best practices, including strategic HR and talent management
- The drive to accelerate learning and elevate the country in the global community means increased focus and spending on the nation's human capital development in both the public and private sectors
- Technologies supporting the required changes will be increasingly adopted to fast track and facilitate their implementation

6 Technology uptake

Indonesians love technology – especially if it is social and mobile. As at June 2011, mobile phone subscriptions had reached 250 million, representing 105% of the population, with service providers still anticipating strong growth¹⁹. Many new phone users have transitioned from no phone directly to cell phone, skipping the landline stage altogether²⁰.

The predominant device for access to the Internet is the BlackBerry Smartphone. BlackBerry holds 46% market share in Indonesia (compared to 13% in the U.S.), gaining the country the tag of being a ‘BlackBerry Nation’²¹. Accessibility and affordability have given BlackBerry an enormous edge over their competition.

In the year 2000, there were 2 million Internet subscribers in Indonesia. By the end of 2011 this had grown to 55 million (76% of which are also FaceBook users) and still represents only 22% population penetration²².

Indonesians rank amongst the most prolific social networkers in the world. Indonesia ranked third in the Top 10 of Facebook users in 2011 and also has the highest penetration of Internet users on Twitter in the world (at 20.8%)²³. Indonesia has a very socially interactive culture and social media has been quickly adopted to facilitate these interactions with greater ease than ever before.



Top 10 Websites - Indonesia 2011

- Facebook
- Google.co.id
- Google.com
- Blogger.com
- Yahoo!
- Kaskus
- YouTube
- Wordpress.com
- 4shared
- Detik

Source: Water & Stone, 2011

Top 10 Facebook Users 2011

Millions

1. USA	155.7
2. India	43.5
3. Indonesia	43.1
4. Brazil	37.9
5. Mexico	32.0
6. Turkey	31.2
7. United Kingdom	30.2
8. Philippines	27.6
9. France	23.6
10. Germany	22.6

Source: www.checkfacebook.com

The use of human capital management technologies is also gaining mainstream adoption. Gartner forecasts for HCM technologies in Indonesia average over 15% per annum growth between 2012 and 2016²⁴. HCM technologies include core payroll and personnel administration systems as well as talent management applications such as recruitment, performance management, learning and development, succession management and workforce planning. It is anticipated that in keeping with global trends, software-as-a-service applications will be the preferred choice of MNCs seeking to augment or upgrade their HCM technology suites.

Impact of technology uptake on talent management

- High levels of technology uptake in technology devices and applications prime Indonesians as willing and able adopters of advanced enterprise applications
- Mobile device proliferation will accelerate the demand for applications for personal and workplace use
- High affinity with social media will see this become a key channel for talent management applications
- Adoption of SaaS based integrated talent management systems will significantly enhance human capital management capability in MNCs.

Indonesians are open-minded and willing to draw from western practices

Critical business issues and talent management in Indonesia

Strategy execution

The ability of MNCs to realise the potential of the emerging markets depends on their ability to execute global and local strategies. Understanding the critical role that an organisation's talent plays in delivering on strategy requires the short and long term management of human capital resources, ensuring business performance, profitable growth and competitive value propositions.

Effective talent management aligns the human capital required to execute global and local business strategies in the present and the future.



The Kominex Pharmaceutical Laboratories, located on Soho, Indonesia, manufacture and distribute a range of pharmaceuticals, vitamins and natural health products.



In an interview with Towers Watson²⁵ to discuss the human capital challenges facing their organisation, Chairman Djoenaedi Joesoef noted:

- Kominex believes in hiring locals and invests 10% of work hours (25 days per annum) in training to ensure workers have the right level of competencies.
- Competition for labour has forced the company to benchmark against its competitors, resulting in aggressive bonus and benefits strategies to aid employee retention.
- Succession planning at top management levels remains the greatest human capital challenge.

TIPS FOR STRATEGY EXECUTION IN INDONESIA

1. Understand the market

Indonesia is a country and economy in transition. Significant political upheaval on the road to fully establishing its democracy means that much of the legal and regulatory frameworks are still evolving and are neither as comprehensive or sophisticated as those of the advanced world. Allowances need to be made that accommodate delays and considerable bureaucracy.

2. Respect the culture

Indonesians value trusted relationships and these need to be established and nurtured. MNCs must ensure they know the Bapak leaders in their field and build sound relationships to ensure cultural obstacles do not occur unnecessarily.

3. Globalise best practices

Indonesians are open-minded and willing to draw from western practices. This should be tempered with adaptations for the local market as well as indigenous implementers of these practices.

Business intelligence

Human capital represents the highest component of cost in most organisations' financial statements and as a result is attracting the attention of senior business executives seeking to optimise corporate performance. Despite the obvious impact of human resources on an organisation, accurate and meaningful data has historically been difficult to source or access, due to the poor quality and disparate capture methods applied.

Advanced business and HR analytics are now a reality with the advent of sophisticated, powerful and integrated technologies that open the door to strategic workforce analysis and planning.

DATA CAPTURE

Rich employee data can be sourced at each stage of the talent management process:

- During **recruitment**, detailed personal profile and behavioural and psychometric assessment data is gathered
- The **performance** management process yields insights into goal achievement and professional development needs
- In **career** discussions, insights into employees' aspirations, availability, potential, readiness and mobility are obtained
- Personal and career goals highlight **training and development** needs, and
- Career growth and promotion goals identify **succession** possibilities

By integrating the data sourced throughout the talent management life cycle, detailed and informative analysis can be conducted.

DATA ANALYSIS

Analytics based on rich employee data are able to provide organisations with meaningful answers to critical business questions, such as:

- Do we have the right workforce mix to successfully achieve our goals?
- Are we attracting top talent and critical skill sets?
- Where are we failing to achieve optimal workforce productivity?
- How strong is our talent pipeline?
- Can we mobilise our workforce where and when we need it?
- What are the key levers for talent engagement and retention?

This level of analysis provides strategic business value and is a must have for MNCs with operations and talent in diverse locations.

REPORTING AND DECISION-MAKING

The result of having access to accurate and dynamic employee data and analysis tools, businesses become able to proactively forecast future workforce needs to align with strategy implementation.

Meaningful, accurate and timely information that informs strategic decision-making and provides competitive advantage.

Effective talent management utilises human capital data to develop predictive analytics that forecast talent risks and opportunities.

TIPS FOR IMPLEMENTING HCM BUSINESS ANALYTICS

- Invest in unified systems that allow for numerous data sources to be seamlessly integrated for fast and accurate information analysis and reporting
- Focus on metrics that deliver true business value, such as customer acquisition and retention, corporate performance and critical skill forecasts, not those that merely churn HR data.

Effective talent management ensures a rich pipeline of technical, managerial and leadership skills

Building a global talent pipeline

Global supply and demand for labour is unevenly distributed and shifting demographics, social and educational factors are crystallising a worldwide shortage of critical skills.

Effective talent management ensures a rich pipeline of technical, managerial and leadership skills to ensure business continuity, including strategies to reduce time to productivity and accelerate high potential.



With 54 billion in assets and 3.8 million policyholders, Great Eastern is the oldest life insurance company in Singapore and Malaysia, and also has operations in Indonesia, Vietnam, Brunei and China. Among the key HR challenges confronting the insurance industry generally and Great Eastern specifically are high attrition rates and limited talent pools for critical business roles.

Speaking at the 8th ASEAN Insurance Congress in November 2011²⁶, Chiang Boon Kong, Managing Director, Group Human Capital at Great Eastern highlighted the initiatives the organisation is taking to shore up leadership bench strength and the high potential talent pipeline, including:

- A talent identification process using a Leadership Potential Model that includes individual capabilities related to intellect, influence and temperament
- Establish career development roadmaps for parallel streams of general management talent and 'deep reach exceptional talent'
- Build a remuneration architecture that measures and rewards contribution to both individual objectives and team talent management
- Align everything to the corporate vision

TIPS FOR BUILDING A TALENT PIPELINE

1. Align the talent pipeline with business strategy

Strategic human resources management is about aligning people and skills with the business goals they are employed to implement.

2. Identify and develop potential

With many young leaders emerging in Indonesia, early identification and focused development are critical to ensuring capabilities are fast tracked and quickly transformed from potential to actual performance.

3. Focus on critical skills

Pareto's 80/20 rule applies to an organisation's critical skills. A small percentage of your workforce has the critical skills that drive real business outcomes. Employees with these skills should be actively sourced, nurtured and retained.

Knowledge transfer

Corporate colleges, universities and learning centres are gaining popularity in Indonesia and are highly regarded. A combination of local learning and expatriate and secondment opportunities is necessary to build and leverage global knowledge and practices within organisations and industries.

Knowledge capture, storage and transfer enable continuous improvement and best practice development, leverage corporate memory and minimise brain drain.

Corporate colleges, universities and learning centres are gaining popularity in Indonesia and are highly regarded. A combination of local learning and expatriate and secondment opportunities is necessary to build and leverage global knowledge and practices within organisations and industries.

Knowledge
capture, storage
and transfer
enable continuous
improvement
and best practise
development

THIESS INDONESIA

In 1992 Thiess Indonesia established its corporate training facility at Balikpapan to provide ongoing development of the skills and capabilities of its Indonesian workforce of over 7,000 employees.

Partnering with Indonesian and Australian universities, the Balikpapan Training Facility delivers a broad range of programs to develop a combination of internationally certified technical courses as well as management and leadership skills development. Thiess combines training with a broad range of other initiatives to ensure knowledge transfer at all levels, across sites and projects. The facility oversees the implementation of:

- Leadership and supervision training
- Internationally recognised apprenticeships
- Secondments to overseas business units
- Mobile equipment simulators and onsite classes
- Management Development Training program

TIPS FOR EFFECTIVE KNOWLEDGE TRANSFER

1. Establish 'hard' and 'soft' skill programs

Technical and specialist skills are necessary for task completion but so are supervisory, management and leadership skills. In the longer term, these latter soft skills will be the enablers of greater workforce performance and productivity.

2. Invest in being a learning organisation

Leading MNCs in Indonesia recognise and accept their role in educating and up-skilling their workforce, making them more productive and more employable

Optimising talent acquisition

Do:

- Enhance your corporate career website to attract top talent
- Use social media to build out your employer value proposition
- Enable mobile interfaces to job postings and the recruitment process
- Encourage online forums, discussions and collaboration
- Consider crowd sourcing for appropriate roles

Don't:

- Underestimate the importance of the candidate experience
-

Optimising human capital management in Indonesia

Talent acquisition

Recruiting the right talent to populate a workforce is challenging at the best of times; in Indonesia poor hiring decisions are even more costly. Laws prohibit the termination of employees unless there are very good reasons, and poor performance is not one of them. Even professional misconduct requires a drawn-out process of written warnings (a minimum of 3, each spaced 3 months apart)²⁷. The onus therefore is on the employer to use effective sourcing and selection practices and get talent acquisition right.

HIRING LOCALS

There are two labour markets operating concurrently in Indonesia:

- the market for unskilled labour, which is characterised by an oversupply and declining demand, and
- the market for skilled labour, which is characterised by undersupply and growing demand.

Consequently, unemployment statistics appear somewhat high, while employers seeking skilled labour still claim to be unable to source and retain the right talent.

Media advertising remains the most used method of sourcing job candidates (85%), followed by recruitment agencies (54%) and word of mouth (46%)²⁸. The use of Internet job boards is growing (33%) and as elsewhere in the world, likely to overtake traditional sourcing methods in future. The top three job boards in Indonesia, ranked by web popularity, are²⁹

- JobStreet Indonesia
- JobsDB Indonesia
- Monster Indonesia

The Ministry of Manpower has issued registrations permits to 550 recruitment agencies in Indonesia, renewable every five years. Recruitment agencies are instrumental in the placement of candidates in local positions as well as migrating Indonesian workers offshore, mainly to Malaysia and Singapore³⁰.

EXPATS IN INDONESIA

Relatively high unemployment means the Indonesian Government does not favour the hiring of expatriate labour, so there are numerous restrictions and significant bureaucracy associated with doing so. Work permits are only issued to foreigners that are deemed to be experts in their field, so for low to moderate skilled jobs and the young and inexperienced, permits will most likely be declined.

As a further deterrent, the Government imposes a monthly tax of US\$100 per foreign employee. If a work permit and visa is issued, employers are required to commit to "Indonesianising" the role with a training and development plan that will develop the imported skills in local workers within a set period of time.

MNCs are beginning to take a more strategic approach to talent acquisition and retention, however significant progress can still be made in sourcing and selection methods.

Performance Management

Westerners value and reward performance: the higher the better. This does not translate directly to eastern values, and many MNCs and expatriate managers struggle to understand and align their approach to performance management³¹.

PERFORMANCE PROCESSES

Most MNCs aim to introduce globally uniform performance processes. There are obvious advantages of doing so, especially if you are charged with global talent management responsibilities – how can you compare performance across countries without consistent benchmarks, measures and rating methods? Yet failures of execution often mean these processes do not produce meaningful data. Indonesian managers employed by MNCs may support the parent's objective, but know that culturally this will not work. "Grin and bear it – it's a western thing" may be the approach taken to appease both the locals and the foreigners.

WHO'S PERFORMANCE?

As is the case in many collectivist cultures, individual performance appraisals create difficulties on numerous levels. The concept of individual performance is not consistent with the upbringing and values of Indonesians, who learn to value team contribution and group results. Isolating individuals and highlighting either positive or negative aspects of their performance is therefore extremely confronting and socially painful for these employees. Individual recognition for tenure or seniority will be well received, however a recognised 'high performer' may be viewed as a traitor to the group.

PERFORMANCE FEEDBACK

Indirect communication preferences mean that

- employees may not say what they really mean (for fear of losing face, being reprimanded or creating disharmony), and
- employees and managers may rely significantly more on non-verbal gestures, inferences and subtleties than westerners are used to.

This poses quite a challenge for the provision and acceptance of verbal performance feedback, especially where it involves the need for improvement. Feedback that implies underperformance will be taken personally rather than as an opportunity for professional development, and almost certainly result in a loss of face. Managers should avoid giving negative feedback in an open forum that may expose employees to humiliation in front of their colleagues.

MOTIVATING EMPLOYEES

Money and benefits are linked to status in Indonesia and status goes with the position an employee holds. In this way rewards are perceived to derive from one's position, not performance. This is an interesting twist for western managers, and requires a reassessment of approaches to increasing employee motivation. Indonesian employees are motivated by:

- Gengsi (how they are perceived in their work and social community) and
- Asal Bapak Senang (pleasing their manager).

Managers are expected to provide paternalistic care and oversight of their employees in return for loyalty and effort. Support (of both a personal and professional nature) and recognition also serve to reinforce the relationship between managers and their employees.

Optimising performance management

Do:

- Introduce global performance management systems in a staged approach over time
- Continuously communicate why this is important
- Invest in performance management training for managers and employees
- Ensure the process is visibly fair and equitable

Don't:

- Link performance to pay or bonuses until the system is well understood and adopted
- Reward the performance of isolated individuals without recognising the team
- Provide negative feedback or criticism in public

Market reforms
and globalisation
are influencing
remuneration
practices in
Indonesia

Compensation

The Ministry of Manpower (Depnaker) is Indonesia's regulatory body overseeing workplaces practices, contracts and employment conditions. Publicly available information regarding compensation has in the past been limited, however as Indonesia seeks to increase its footprint in global business, more international standards are being implemented.

Market reforms and globalisation are influencing remuneration practices in Indonesia. For example, over the past five years, performance bonuses and the use of stock options have gained increasing popularity in executive compensation packages, as have increasing transparency and disclosure related to executive remuneration³². Salary packaging including cash, incentives, benefits and intangible rewards are becoming more prevalent.

Unskilled labour is commonly unionised. Minimum wages apply in Indonesia and must be structured to represent at least 75% cash, with the balance usually applied to food and/or transport³³. Despite increases in recent years, low base levels of pay and conditions spawned industrial action including protests and strikes in February 2012 as unions and workers challenge minimum wage levels and the trend toward labour outsourcing³⁴.



Leadership Development

Around the world, studies continuously correlate quality leadership with superior business performance. And even more identify the lack of effective leadership talent at all levels in organisations. Indonesia is no different.

In a global study undertaken by DDI and then filtered by country, Indonesia showed a vast shortfall between the quality and quantity of leaders required, and that available.³⁵

Of the 600 Indonesian leaders and 45 HR practitioners surveyed, only 17% of leaders and 7% of HR rated the leadership capabilities in their organisations as high. Whilst this disappointing trend is a global phenomenon, Indonesians assessed themselves more harshly than the rest of the world, which averaged 38% and 26% respectively.

A SHIFT IN FOCUS

By all accounts, Indonesia has weathered the global economic storm well, recording strong and consistent growth. This growth of itself has however put immense strain on the countries resources: environmental, infrastructure and human capital. This is reflected in the DDI study, which highlights the shift in leadership skills required for future success, compared with those of the past, tabled opposite.

Critical Leadership Skills (PAST 3 YEARS)

- Improving employee engagement
- Coaching and developing others
- Driving and managing change

Critical Leadership Skills (NEXT 3 YEARS)

- Driving and managing change
- Fostering creativity and innovation
- Identifying and developing future talent

Of the 600 Indonesian leaders and 45 HR practitioners surveyed, only 17% of leaders and 7% of HR rated the leadership capabilities in their organisations as high

A LEADERSHIP MINDSET

Stepping up to take on leadership roles does not come naturally or sit comfortably with many Indonesians. Strong hierarchical delineations mean that leadership positions usually come with age, tenure and authority, so a typical 'high potential leadership program' targeted at young emerging leaders will create cultural challenges. Further, young employees may try to avoid standing out among their peers.

Optimising training and development

Do:

- Recognise training as a key strategic requirement
- Localise global training programs to increase relevance
- Implement training metrics to measure the quality of content, delivery and outcomes

Don't:

- Assume the labour market can supply the quality and quantity of technical and managerial skills necessary without further education and training
-

Training and Development

MNCs in Indonesia including Accenture, Unilever, MicroSoft and Chevron highlight their annual training spend and training hours per employee as key to their attraction and retention strategies.

A broad study³⁶ of 529 MNCs operating in six Asian countries (61 from Indonesia) found that both local and foreign owned MNCs were investing significantly in training, although foreign owned companies on average spent more, and that

- many used standardised global programs despite market and cultural differences
- more training was provided in the services sector than manufacturing, reflecting the shift in the importance of services and the greater skills gap in this sector
- more training was required across the board, and
- over 75% of managers held concerns about the quality and relevance of training provided.

The high need for skill development in local employees has resulted in significant attention, effort and funding directed toward corporate training. In fact Trainers were highlighted amongst the hottest jobs for salary growth in Indonesia in 2010³⁷.

As Indonesia's secondary and tertiary education institutions increasingly align their programs and standards to western benchmarks, graduating students will be increasingly employable. In the meantime, MNCs and local commercial organisations will continue to play an important role in educating the workforce.



In closing

Often overshadowed in the Asian region by the monster economies of China and India, Indonesia is somewhat quietly, yet steadily emerging as an important world power. Vast transformation has occurred in a very short period of time in Indonesia's political and economic structures, and although the country has some way to go to shed its historical legacies, proactive government and social programs are pushing toward greater progress.

Unlike many of its neighbours, Indonesia has embraced democracy and although its democratic systems are still immature, they are embedded and endorsed by the nation. The youth of Indonesia are passionate and committed to their prospects and their country, and continued positive growth is expected in the foreseeable future.

MNCs stand to gain by joining Indonesia on its journey of change and evolution. A large indigenous population underpins a strong potential local market and improving discretionary incomes will gradually increase purchasing power. Indonesia is also rich in natural resources and many MNCs in the mining, refining, energy and construction industries are growing their presence and assets throughout the country. The strong and consistent rate of economic growth presents opportunities for businesses in all industries to play a part in the ongoing development of Indonesia.

Talent management is a growing, albeit somewhat new, focus for organisations in Indonesia. Driven by the shift in economic priorities from manufacturing and production to the services sector, new and scarce skills are being sought by more and more organisations, leading to the shortages currently being experienced.

Savvy talent managers are looking to their operating processes, systems and practices to improve in order to meet the challenges confronting their organisations. Effective talent management is at the heart of reducing human capital risk and enhancing workforce effectiveness. In a country with as promising prospects as Indonesia, now is the time for human resources departments to step up and contribute what can only be described as a critical business function.

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About the Author

Sylvia Vorhauser-Smith is Senior Vice President of Research at PageUp People. She is responsible for driving thought leadership in the field of human capital management for global organisations facing cross border expansion and growth.

Vorhauser-Smith has more than 25 years of experience in corporate and entrepreneurial business environments, including positions as Head of Selection and Development at Westpac Banking Corporation, Human Resources Manager for Citibank Limited, and General Manager of Integrated Talent Management for PageUp People. Prior to joining PageUp People, Vorhauser-Smith was Founder and Chief Executive Officer of consulting firm Talent Edge, specialising in bespoke leadership development and talent management solutions.

Vorhauser-Smith is a regular national and international speaker on neuroscience, talent and human capital management, having addressed audiences in Boston, Singapore, Kuala Lumpur and across Australia. She is a featured contributor to Forbes Magazine and author of numerous white papers on talent management. Vorhauser-Smith holds a Bachelor of Business and Graduate Diploma of Psychology from Monash University, and a Post Graduate Certificate in NeuroLeadership from Middlesex University.



Australia (Melbourne)

Level 10, 91 William Street
Melbourne, VIC, 3000 Australia

P: +61 (0)3 8677 3777

F: +61 (0)3 9923 6112

Australia (Sydney)

Level 2, 9 Barrack Street
Sydney, NSW, 2000 Australia

P: +61 (0)2 8088 0600

F: +61 (0)2 9475 0560

USA (Atlanta)

10475 Medlock Bridge Road
Suite 310
Johns Creek, GA 30097 USA

P: 800 675 7988

F: 404 994 2850

UK (London)

70-75 Shelton Street,
Garden Studios, Covent Garden
London, WC2H 9BP, UK

P: +44 (0)20 7470 8727

F: +44 (0)20 7681 3149

China (Shanghai)

Room 2102, Building A
Shanghai Universal Mansion
No. 172 Yu Yuan Road
Jing'an District, Shanghai
200040 China

P: +86 (0)21 5403 5500

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