

HRM IN INDONESIA

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ABSTRACT

Human Resource (HR) scholars emphasize that the essence of Strategic Human Resource Management (SHRM) is how organizations link Human Resource Management (HRM) to their business or organizational strategy (note: for practical reason, the acronyms of HR, HRM and SHRM will be used throughout the thesis). This means that business strategy is the main determinant factor of HR strategy, followed by other internal or organizational and external or environmental factors (e.g. Armstrong, 2009; Beer et al., 1984; Boxall & Purcell, 2000, 2008; Delery & Doty, 1996; Fombrun, Tichy & Devanna, 1984; Miles & Snow, 1984; Schuler & Jackson, 1987, 1999).

Keywords: Strategic human resource management, Indonesia, grounded research, best practice, best fit, two-way linkage, integrative linkage, credibility HR strategy, organizational support, role of HR people.

1. INTRODUCTION

Managing Indonesian people is not easy because of the complex cultural, geographical, historical, ethnic, religious, economic, political and administrative systems. Singleton and Nankervis (2007: 341) proposed an interesting question about HRM: "how do Indonesian companies organize these activities?" in such a diverse nation. This question refers to the three HR activities; first, HR planning, recruitment and retrenchment; second, orientation, development, and training; and third, performance appraisal, career development and industrial relations. They suggest the answer will vary depending on the type of company. Some large companies are likely to adopt international HRM practices, whereas smaller companies will tend to manage their people by using an ad hoc approach.

2. ABOUT INDONESIA

Indonesia has a large population and is a strategically located country with a very diverse, complex, and unique social-cultural life. Unfortunately, the country was not well recognized by the international community prior to the Asian crisis in 1997. This viewpoint is further stressed by Singleton and Nankervis (2007: 308) claim "there is no country of such vital strategic importance that is less understood than Indonesia". Bennington and Habir (2003: 373) also mention that "until about 1997, Indonesia is one of the least known countries, but since that time, the country has become known for almost a continuous political and economic crisis" Current reports suggest that the population of Indonesia was 234.2 million people in June 2010 (BPS, 2010). Indonesia is considered as the world's fourth most populous country after China, India, and US (CIA, 2010; Wikipedia, 2010). It also has the world's largest population of Moslems, although officially it is not an Islamic state. Six religions are officially recognized by the government: Islam, Protestantism, Roman

Catholic, Hinduism, Buddhism, and Confucianism. The distribution of the religious followers is Muslim 86.1%, Protestant 5.7%, Roman Catholic 3%, Hindu 1.8%, other or unspecified 3.4% (CIA, 2010; Wikipedia, 2010). The country has more than 300 ethnic groups, each with cultural differences which have been developed over centuries and influenced by Arabic, Chinese, Malay, and European sources. The distribution of the main ethnic groups can be described as Javanese 40.6%, Sundanese 15%, Madurese 3.3%, Minangkabau 2.7%, Betawi 2.4%, Bugis 2.4%, Banten 2%, Banjar 1.7%, other .From a religious perspective, Islam has a very strong influence on cultures such as Aceh, Banten, Minangkabau, and Java. Bali's culture is highly influenced by Hinduism. Batak, Manado, and Papua's lives are colored by Christian and Catholic influences.

While Indonesian Chinese customs are supported by Buddhist and Confucianism teachings. Indonesians modern life style is highly influenced by western cultures such as television shows, movies and songs. As a result, there is a complex configuration of indigenous- religious-western values, or this can also be seen as the influence religion-rationalism- spiritualism-and traditional values in the daily life of the Indonesian people (Geertz,1960, 1967; Gunawan & Nankervis 2006; Grant, 1996; Hill,1996; Kingsbury, 2005; Singleton & Nankervis, 2007, Wikipedia, 2010). It should be mentioned, however, that the educated younger generation is less influenced by spiritualism and local beliefs. Overall, Javanese culture is to be the most influential culture in Indonesia's daily life:

3. PROFILE OF INDONESIA LABOUR FORCE

“The unemployment rate in February 2007 was 9.75%. Despite a slowing global economy, Indonesia's economic growth accelerated to a ten-year high of 6.3 percent in 2007. This growth rate was sufficient to reduce poverty from 17.8 to 16.6 percent based on the Government's poverty line and reversed the recent trend towards jobless growth, with unemployment falling to 8.46 percent in February 2008. Unlike many of its more export-dependent neighbors, it has managed to skirt the recession, helped by strong domestic demand (which makes up about two-thirds of the economy) and a government fiscal stimulus package of about 1.4 percent of GDP, announced earlier this year. After India and China, Indonesia is currently the third fastest growing economy in the Group of Twenty (G20) industrialized and developing economies” (Wikipedia, 2010: 2). The economic crisis that lead to the resignation of Soeharto, albeit under pressure, has significantly contributed to the changes in Indonesia's political and government system, which is widely known as the reformation. Habibie, as the caretaker president, introduced liberal political policies including withdrawing the restrictive press laws and granting permission to release new media, political prisoners, and new political parties and removing the military from political roles (Emmerson, 1999; Kim & Haque, 2002; Liddle, 1999; Shiraisi, 2001). Since this change, a more democratic environment has arisen in Indonesian society. Since then Indonesian presidents have been elected democratically; they are in succession order Abdurrahman Wahid, Megawati Soekarno Putri, and Susilo Bambang Yudhoyono.

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Historically HRM has not played an important management role in Indonesian organizations. HRM is considered a personnel function, which merely plays a traditional-administrative role (Habir & Larasati, 1999; Habir & Rajendran, 2007). For example Budiharjo’s study (1996) cited in Habir and Larasati (1999: 1) identified that:

“Human resource management, however, has historically not had an important role in Indonesian management. It has traditionally been regarded as personnel function, almost totally administrative in orientation. Even in this capacity, human resource management is not regarded highly. A survey undertaken in 1995 showed managers’ perceptions of the human resource audits, human resource development and planning, employee orientation, and salary system of their companies were negative”.

4. ROLE OF HRM IN INDONESIA

Habir and Larasati (1999) analyzed three leading Indonesian companies and their study indicates a changing orientation for HRM in Indonesia, which is more strategic and focused on how HRM strategies and processes align with the business imperatives. The three leading companies in their study (Sinar Mas Group, Astra group, and PT Rekayasa Indonesia) provide considerable evidence that modern HRM practices can be successfully integrated with complex Indonesian social, cultural, economic and political dynamic by innovative and charismatic business leadership (also see Singleton & Nankervis, 2007). Another study was conducted by the high reputation management magazine SWA in 2006. This study reported that forty-nine major companies, comprised of eleven state enterprises and thirty-eight Indonesian private companies, showed a growing orientation toward managing their people more strategically. These organizations believed that employees were not merely production factors, but were human capital to be developed to provide the best contribution and value to the organization (SWA, 2006).

Indonesian HRM scholars (e.g. Gunawan & Nankervis, 2006; Habir & Rajendran, 2007; Singleton & Nankervis, 2007) strongly agree that following the impact of globalization and the recovery from the financial crisis of the late 1990’s, there has been a growing awareness among Indonesian companies, especially big

companies, that they need to pay more attention to implementing HRM strategically to achieve organizational goals (also see Budiharjo, 1996; Ciptono, 1998; Rhodes, Walsh & Lok, 2008). This paradigm shift for Indonesian HRM is illustrated by Habir and Rejendran:

“Nevertheless, since the 1997 crisis, business organization have moved towards improvements in their HRM system; currently, personnel departments are known as HR department and personnel managers are re-designated as HR managers. More companies are adopting strategic HR by highlighting the role of HR departments in their annual reports. Some companies have set up HR committees at the governance level, in line with good corporate governance practices. These developments indicate a growing realization of the importance of HRM in Indonesia today” (2007: 30-31).

Because of the dynamic and environmental setting, the complexity and paradox of the society, and as the response to globalization, SHRM practices need to make continuing adjustments if they are to be appropriate to Indonesian’s needs. Unfortunately, little attention has been given to studying HRM practices in Indonesia, even though a number have studied HRM in other developing countries across Asia and the Asia-Pacific (see such as Budwar & Debrah, 2001; Kidd, Li & Richter, 2001, Roley, 1998). There is also a considerable lack of English language literature as is borne out in this following comment:

“Despite the major issues facing this country and the significant international concern about its future, reports on HRM are limited mostly to labor economics and macro-level human resource development. The English language journals have included articles on the developing countries in Europe, Africa, and Asia (countries such as Hong Kong, China, Singapore, Korea, Japan, and India), but surprisingly little has been reported on Indonesia. Even Industrial relation book on Asian and East Asian countries have failed to provide chapter Indonesia. Similarly, the Teagarden/Von Glinow research consortium, which has included Indonesia as one of the target countries, has not yet reported significantly” (Bennington & Habir, 2003: 374).

Given the limited articles and research, more consideration and attention to studies about HRM within the Indonesian context are warranted. This call is not only related to the complex setting of Indonesian life, but to the global impact. The dynamic or even contradictive interactions that exist among internal and external aspects of HRM within the Indonesian context are considered an interesting opportunity for study (Bennington & Habir, 2003; Budiharjo, 1996; Ciptono, 1998; Gunawan & Nankervis, 2006; Habir & Larasati, 1999; Habir & Rajendran, 2007; Huo, Huang & Naphier, 2002, Jackson, 2002; Rhodes et al., 2008; Singleton & Nankervis, 2007).

The findings that HRM should fit with business strategy, and either internal and external contexts provide further strong support for the best fit or the contingency approach, which many HR scholars

consider the superior approach to SHRM (e.g. Boxall & Purcell, 2008; Delery & Doty, 1996; Jackson & Schuler, 2007; Lengnick-Hall & Lengnick-Hall, 1988; Lengnick-Hall et al., 2009; Sisson & Storey, 2000; Tissen et al., 2010). Although scholars may focus on different aspects of fit, they agree that to achieve better performance, HRM should be able to fit itself, or adjust to its surrounding internal and external, as does business strategy. This means organizations need to be flexible (de Pablos, 2005; Ketkar & Sett, 2010; Milliman et al., 1991; Wright & Snell, 1998).

Organizations that are able to adjust their fit to the external and internal opportunities and threats flexibly will be able to respond quickly to environmental demands, so sustainable competitive advantage can be achieved. Accordingly, HR flexibility is considered a dynamic capability that helps organizations adapt to changing environmental contingencies (Bhattacharya et al., 2005; Hitt et al., 2001).

The finding that the role of business strategy as central to HR strategy is clearly in line with the major SHRM literature (e.g. Bamberger & Meshoulam, 2000; Boxall & Purcell, 2008; Leopold & Harris, 2009; Lundy & Cowling, 2000). Dyer (1984a: 161) says: “organizational strategy is the major determinant of organizational HR strategy”. Business strategy is also a representation of “...what the company wants to accomplish, how it wants to behave, and the kinds of performance and performance levels it must demonstrate to be effective” (Lawler, 1995: 14). The pioneers of SHRM studies, Michigan’s model (Fombrun et al., 1984) and Harvard’s model (Beer et al., 1984) clearly put business strategy as the source of reference for HR strategy. Furthermore, the two well-known SHRM typologies were proposed by Miles and Snow (1984) and Schuler and Jackson (1987) also emphasize this. Miles and Snow (1984) provide evidence that different strategies require different HR strategies. Miles and Snow’s (1984) typology of strategy describes the prospector, analyzer, defender, and reactor as business strategies that require different formula for HRM. Similarly, based on Porter’s (1980 & 1985) typology of business strategy, Schuler and Jackson (1987) provide further evidence that cost-reduction, innovation, and quality enhancement business strategies need different employee behaviours, which leads to a different HR strategy, and these ideas are clearly supported by Indonesian HR managers.

Concern about matching to HR strategy with number of employees has also been identified in the literature (e.g. Baird & Meshoulam, 1988; Boxall & Purcell, 2008; Jackson & Schuler, 1995, 2007; Jackson et al., 1989; Jones, 1984; Kalleberg et al., 2006). The size of the organization and whether it has simple or complex processes need to be taken into consideration in the HR strategy. More specifically, Baird and Meshoulam (1988) suggest that smaller and more informal organizations are able to have more flexible styles of HRM. In contrast, more sophisticated and professional approaches are needed to handle the greater complexity of a firm that is large and more mature.

More specifically, related to organizations with more complex employees; (Boxall & Purcell, 2008; Kalleberg et al., 2006) describe that they often have multiple HR system; one model for management and another for professionals, or it might be one model for core operating staff, and another model for support employees. By employing multiple HR systems, employees can be managed more appropriately based on their complexity so, both fairness and performance can be achieved simultaneously. This study found that some companies with complex tasks for employees, especially in the agricultural industry, adopted multiple systems of HRM. There are differences between the HR system in the head office and SBUs (strategic business unit), as well as differences between production employees and the mostly casually employed plantation workers.

Based on the HR managers' experiences, some unique phenomenon emerged when implementing SHRM in Indonesia. A small number of organizations had difficulties in gaining sufficient financial support for SHRM, despite that organizationally a strategic approach to HRM had been accepted. The 'trade mark' here is to treat HRM as a cost centre, not a centre of staff investment. In consequence, some HR strategies were not performed, especially the following up of performance appraisals and the related training and incentives. In these instances the HR managers indicated it was not easy to wipe the negative image of HR out from the people's minds. The HR needs to provide evidence that its contributions are truly in line with the business strategy (see e.g. Andersen, 2007, Wright et al., 2001).

In particular HR managers from the agriculture, textile, and hospital industries were concerned because their operations or production are highly influenced by technology. The textile and agricultural industries use machines as the main technology for their production system and this requires employees with certain skills. Accordingly, the HR strategy focuses on building employee competencies and fostering employee commitment to achieve the lowest unit costs (see Jackson & Schuler, 2007; Kintana et al., 2006). On the other hand in the hospital sector, technology is used in tandem with knowledgeable and skillful people in delivering medical treatment services and the focus is on quality of treatment. Technology was not as crucial to the hotel managers as they rely more on their staff to provide their services and an atmosphere that sets them apart, as they all had similar facilities and technology.

HR scholars (e.g. Armstrong, 2009; Baron & Kreps, 1999; Boxall & Purcell, 2008; Dyer & Holder, 1988; Roehling, et al., 2009) suggest that legal aspects must be taken into consideration when formulating a HR strategy. There are many aspects of HRM highly regulated by the Indonesian government, such as the minimum wage, insurance, occupation health safety, equal employment opportunity, etc. Jackson and Schuler (1995, 2007) underline that almost all aspects of HRM are affected by the legal and regulatory environment; accordingly organizations should pay attention and ensure that their HR strategies do not contradict with the regulations. There are many studies (e.g. Gooderham et al., 1999; Gospel & Pendleton, 2003; Pauwee & Bosolie, 2003, 2007) that provide evidence that HRM varies across nations due to adaptation to government regulations. In some countries it

could be at the regulations to protect the employees, while in others it may be that they provide more benefits to employers or employees.

After emerging from the difficulties of 1997-1998, Indonesia has redesigned its economy to be more resistant to global turbulence. Economics scholars (e.g. Basri,2002; Eichengreen, 2004; Kim & Haque, 2002; Pincus & Ramli, 1998; Prasetiantono,2000; Shiraisi, 2001; Smith et al., 2003) suggest this economic reform is on the right track. More recently, Indonesian organizations are working within growth economic conditions: GDP per capita is around \$US 4,000 with a growth of approximately 5% per year, economic growth is of more or less 6% per year; although this went to minus 13% during the crisis of 1998. The inflation index is between 5 to 8% per year, as compared to about 60% during the crisis. The exchange rate in 2010 is around 9,000 Rupiahs per \$US 1 in comparison to 15,000 Rupiahs ten years ago. The labour force is estimated at 116 million people, the unemployment index about 7.40%, a decline of 3 % compared to 1998. People below the poverty line is around 13%, a big improvement on the 40% during crisis. The minimum wage varies in terms of amount of the money across states with the highest in Jakarta (BPS, 2010; CIA, 2010; Gunawan & Nankervis, 2006; Manning & Roesyad, 2006; Singleton & Nankervis 2007; Wikipedia, 2010).

HR managers mentioned that all these conditions influence how Indonesian organizations design their HR strategies, especially those related to recruitment, training and development, and compensation and other incentives strategy. Companies are highly influenced by economic turbulence, for example when inflation is high, consumers purchasing power becomes lower so sales will decline, revenue drops and this will influence all organizational functions, including HRM. In this situation, for example, usually training programs are reduced or will even be removed from the list of HRM practices. Similarly, when the exchange rates of Rupiah drop to \$ US, companies have difficulties to import raw material and technology, and expatriate compensation becomes higher.

Nowadays, Indonesia cannot use low labor costs as a competitive advantage because other countries in the region and elsewhere have much lower labor costs (Deyo & Donner, 2000). Effective HRM practices can be determined as a key factor and for being regionally and internationally competitive (Cheocharnpipat et al. 1997, Wolfe & Arnold,1994). As early as 1999, Habir & Larasaty identified that HRM practices in Indonesia needed a more strategic orientation; they need long term orientation, continuous learning, knowledge creation, a team focus, empowerment and most importantly they needed to be an integration of HRM with the firm's strategy. From what the HR managers in this study reported, this shift is occurring.

5. CONCLUSION

The paradigm shift in HRM in Indonesia has come about because of the losses suffered following Asian economic crisis 1997. This made organizations aware of how dependant they and the economy were on employee wellbeing (Habir & Rajedran,2007; Sitalaksmi & Zhu, 2010).

In line with previous studies, Indonesian organizations in this study indicated that their HR department has moved from administrative to strategic roles; these are two-way linkage and integrative role. Golden and Ramanujam (1985), provide some helpful criteria to measure the degree of strategy among HR roles, this includes the motivation for using an integration, approach the view of HR and the HR function, the primary role of the HR executive and the HR function, performance criteria on which HR is measured and the for implementing HR programs or system. Those Indonesian organizations that consider HR as important capital that helps them achieve competitive advantages, involve the HR department throughout all organizational activities, both strategic and non-strategic (operational) activities. Although the HR department may contribute to designing the organizational strategy, they are not involved in the decision process. An interesting finding was that two organizations practice 'informal strategic decision processes'.

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