CORPORATE AND FUNCTIONAL HUMAN RESOURCES DEVELOPMENT STRATEGY FOR DEVELOPING COUNTRIES

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Indonesia has shown impressive increases in Gross Domestic Product on an annual basis since the late 1960s. However, changed conditions in the world economy of the 1990s present increased challenges to any country that is seeking to continue its economic development. The environment for international competition has intensified. Most countries in the world are now either firmly in the capitalist camp or are becoming increasingly capitalist in their economic development plans, if not in their political structures. Developing countries are competing intensely with one another to attract foreign investment and develop the infrastructures to support business operations. Multinational corporations looking to expand or relocate their operations have a range of options to choose from as their presence is highly valued not only by developing countries but also by developed countries seeking to offer employment to their citizens.

Countries seeking to advance their position in the global business arena face the formidable challenge of attempting to identify business sectors in which in-country companies and, possibly, subsidiaries of multinational corporations can compete effectively. For developing countries in particular, the challenge is great. The traditional area for entry by developing countries into international markets has been as a manufacturer and/or assembler of low-skill products and as a supplier of raw materials to companies in more developed countries. While these options are still available, they do not promise long-term economic growth and stability. For low-skill products, several countries are simultaneously seeking to compete in this area and the competition is intense. For the supply of raw materials, countries rich in natural resources are becoming increasingly sensitive to the finite nature of these resources and the often fickle market forces that govern fluctuations in pricing on the open market. A delicate balance must be maintained between using the sale of these resources to contribute to economic growth and social development on the one hand and squandering these resources to the detriment of the future welfare of the country on the other hand.

Companies in developing countries must operate within the parameters set for them by the market opportunities available and the government policies that affect their business. An area of mutual concern shared by both governments and individual companies is in human resources development. Governments have come to realize that a critical factor affecting the ability of a country to attract and retain business development is the skill level of the work force. A certain level of educational attainment, for example, is required for even the basic assembly processes in many industries such as computer chips and electronic products. For corporate executives, lucrative business opportunities can be lost simply because the company does not have the trained, experienced manpower available to pursue them.

In this paper, I seek to identify the main issues that corporate executives face as they manage companies in developing countries, with particular reference to Indonesia. I will concentrate in particular on the human resources development issues that these executives face. Included is an exploration of the impact of factors such as leadership, organizational culture, and organizational design on organizational effectiveness. Finally, I identify key aspects of a human resources development strategy that companies need to put into place in order to maximize their chances for success. These issues are framed with particular reference to the Indonesian context. Lessons will be drawn from a comparative analysis with the development process in the Little Tigers of Asia where relevant.

In the human resource development context, the challenge is clear. Companies must seek to develop the number and quality of managers and employees that will enable them to grow and prosper. In Indonesia, where government protection has previously served to insulate many companies from outside competition, a special challenge involves the need to become internationally competitive, especially in light of the trend toward opening up domestic markets to foreign competition. Related to the need to develop international competitiveness comes the need to bring down the high cost of goods and services in Indonesia. In the more distant future for many Indonesian companies, the challenge will be to develop their abiliites enough to become key players in the world economy in certain markets.

How do Indonesian firms in general show themselves in comparison with the challenges just mentioned? The current situation in Indonesia shows substantial gaps in the ability of firms to respond effectively to the increasingly competitive – and increasingly close to home – international arena. A major area of need is the weaknesses that exist in the ranks of middle level managers. Indonesian companies suffer because adequate managerial talent is not available in the Indonesian workforce to meet the needs of the moment. As a result, some reliance is placed on expatriate managers not only from the West but also from countries like the Philippines.

The current situation is also characterized by a lack of sufficient education and skills in the workforce to fill positions in the increasingly technological manufacturing and service sectors. Indonesia has made tremendous strides in offering basic educational opportunities to the majority of its citizens in its farflung and often remote locations. Unfortunately, many other countries have also moved substantially up the ladder in the level of education provided to their citizens. The importance of education cannot be overemphasized. Many business academics regard the skill and knowledge levels of a company's workforce, and the ability of that workforce to continue to learn and grow regularly in the performance of their jobs, as the only real sustainable competitive advantage a company can realistically try to maintain over the long term.

Related to the first characteristic presented above, a third characteristic of the present is the existence of cultural beliefs and company values that accent the dominant roler of owner executives who attempt to control all phases of their company's strategy and operations. If these executives are farsighted and skilled in decision making, the argument might go, then this characteristic is not a problem because the company will be well run. However, the challenges of running modern companies are far too complex for any one individual to be able to handle alone. The aid of skillful and experienced managers and executives is vital to enabling companies to compete. But close control by owner managers does not allow the managers and executives under them to develop the ability and experience in decision making that would enable them to make substantial contributions to the running of the firm. In addition, owner manager control forces all significant problems to rise to the top in order to be addressed. In today's competitive situation, the resulting slowness of decision making and the delays that can result from top down management can be fatal. Speed itself – in developing new products, in bringing them to the marketplace, in responding to competitors' moves, in reacting to major political and economic changes – is regarded as a source of competitive advantage.

A final characteristic of the present is the tendency of Indonesian companies to reward employees based on loyalty and perceived trustworthiness rather than on contributions to productivity and firm performance. Markets are oriented toward price-performance ratios, not toward the loyalty of employee to boss. A truism in the field of organization behavior is that organizations get from their employees the behavior they reward. If they reward performance, the organizations will get high performance. If they reward loyalty, they will get loyal behavior. But loyalty generates attempts to win the favor of the boss, to question the motives of other employees, to jockey for position. It does not design good products and services or develop effective marketing campaigns or refine efficient production techniques.

Having characterized several elements of the current situation, it is worth noting that the Indonesian labor market is changing, partly in response to internal factors and partly in response to external pressures. The lower rate of population growth in recent years has slightly eased the pressure of having to plan for a burgeoning population. However, the task of having to find jobs for the roughly two million new entrants into the workforce every year is still a daunting one. Whereas some neighboring countries like Singapore and Malaysia and more distant ones like Japan and South Korea are experiencing labor shortages, Indonesia must respond to the need to develop jobs on a large-scale basis.

With the increased industrialization of the economy, increased attention is being paid to employee rights, including unionization. Such attention has been seen in the polical realm and will therefore necessarily be the subject of increased attention in business circles. The trend in the West toward seeking to develop collaborative relationships between management and labor indicates that the role of unions can be a positive one. The challenge is to balance the desires of employees for higher wages against productivity gains to be obtained in return. Higher wages that can be offset by substantial productivity gains provides improved standards of living for employees while contributing to the continuing competitiveness of the company (the "virtuous cycle"). These results, however, only arise from astute moves by leaders of business, government, and unions to work together to seek mutually advantageous outcomes.

Reference to company and country competitiveness gives rise to the question of the nature of Indonesia's place in the world economy. In the years leading up to the present, that place has been characterized by a high dependence on the rich base of natural resources that the country possesses. Given the complications introduced by the ups and downs of the oil market, the finite nature of natural resources, and the increasing environmental pressures exerted by sectors within developed economies, such high dependence has made the country's economic position look increasingly fragile, as it is subject to the substantial uncertainties of markets for raw materials. The tremendous gains shown by the Little Tigers of Asia, Hong Kong, Singapore, South Korea, and Taiwan, in the absence of natural resources has demonstrated that alternative models of development are potentially available.

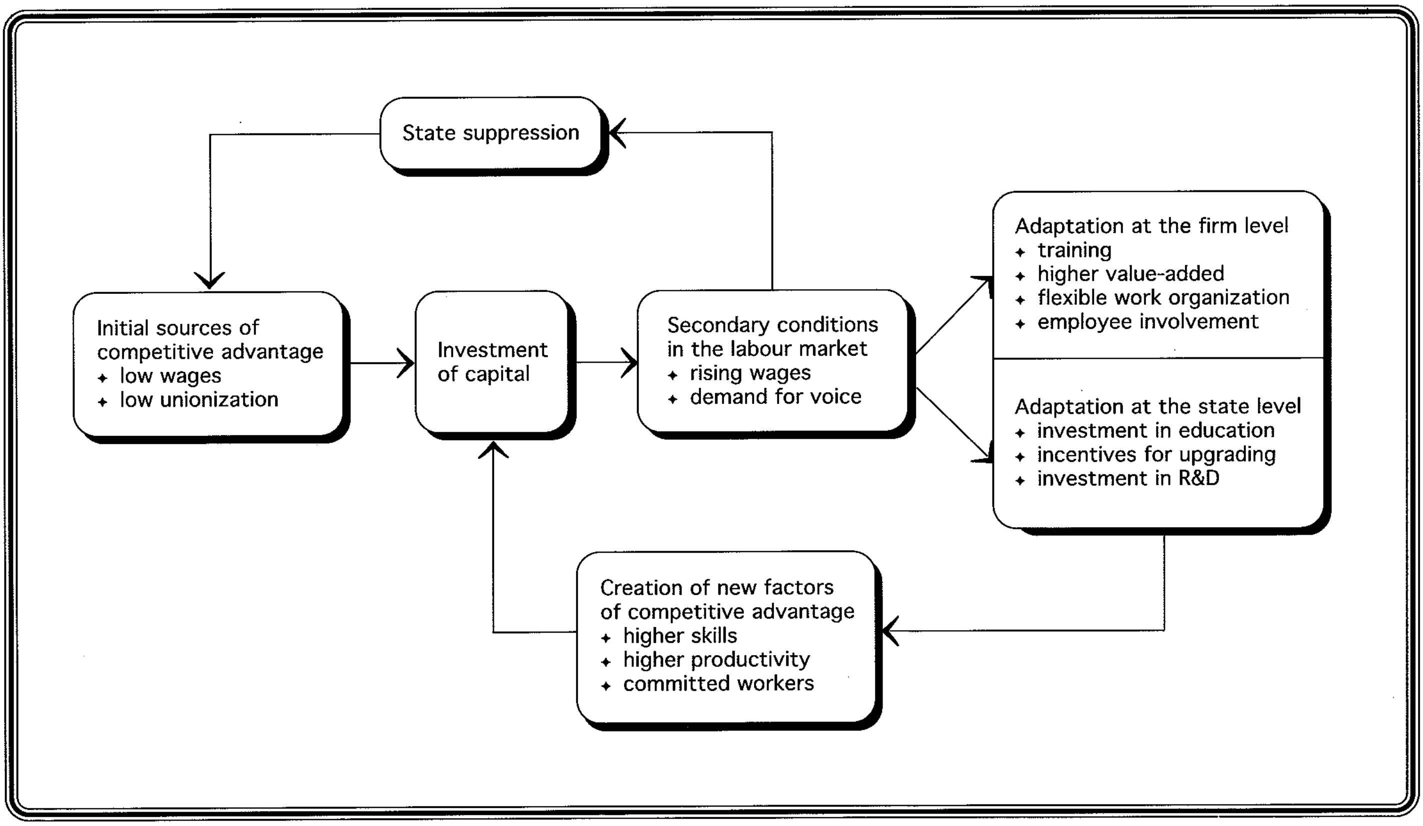
Indonesia has moved into the arena of pursuing multinational corporations for the establishment of manufacturing and assembly operations. Thus far the thrust of that move has been based on the provision of a low wage workforce, nonmilitant unions, and increasing incentives for export manufacturing. The policy has led to successes in increasing the size and contribution of the manufacturing sector to the economy. At the same time, it leaves the country and many companies that are dependent on that strategy vulnerable. The simple fact is that other Asian countries, such as China, Vietnam, and India, already offer lower labor costs than Indonesia. Still other countries that have not yet become major players, such as Myanmar, Laos, and Cambodia, are poised on the horizon. The field is crowded and the distinction of being the low labor cost leader of the world is a dubious one. It is highly questionable whether Indonesia can successfully pursue that strategy, or indeed whether it should want to.

How can Indonesians respond to this situation? The shorthand answer is to look for guidance from other Asian countries that have already travelled this path. According to scholars who have examined development of the economies of the Little Tigers over the last forty years, a common set of conditions that have contributed to economic growth with particular emphasis on human resource development can be identified. That model, presented by Thomas Kochan of MIT and associates, is presented in Figure 1.

As Figure 1 shows, the initial source of competitive advantage offered by all four of the Little Tigers, and more recently by Malaysia, was low cost labor combined with low levels of unionization. This package provided the initial set of conditions that encouraged investment by external capital (Singapore and to some extent Hong Kong) and internal capital (South Korea and Taiwan). Firms setting up operations under these conditions produced low cost goods usually for the low end of the market for particular products and primarily in low technology industries. In response to the investment of capital and the resulting profits made on those investments, labor market conditions changed. As firms prospered, employees sought to share in the prosperity. Pressure mounted for increased wages and employees developed positive views of the potential role unions could play in seeking such increases.

The demands for increasing wages threatened to reduce the competitive advantage on which the Little Tigers had obtained investment. At this point, the governments of the countries involved, which had all played an active role in the development of the initial strategy for seeking investment, had a difficult choice to make. On the one hand, they could seek to suppress unionization and hold down wages in order to maintain the same continuing basis for competitive advantage. On the other hand, they could seek to adapt to the changed circumstances by working to change domestic conditions to pursue competitive advantage. By necessity, these changed conditions moved away from trying to attract companies that relied on low labor costs. Instead, they focused on pursuing companies that would be looking for a higher set of skills in the workforce and a better country infrastructure in which to operate. These companies might be MNCs without previous operations in the country or they might be already-present MNCs

Figure 1
Economic Growth and Human Resources



who were willing to upgrade their operations or they might be existing domestic companies who could alter their strategies to move into higher value-added markets.

The pursuit of the "adaptation" rather than "suppression" approach (in actuality, most countries seemed to combine the two approaches to varying degrees) emphasizes the importance played by close cooperation between government and individual-level companies in the process. Company resistance to cooperating with the changed direction can hamper the ability of a country to successfully alter its strategy for attracting investment. On the other hand, country advocacy of the changes without the necessary provision of supporting services can leave individual companies short of the funds necessary to make the changes desired.

As Figure 1 indicates, successful adaptation creates a new set of factors that stand as the basis for competitive advantage, namely the higher skills that lead to higher productivity and the increased commitment from employees that results from their increased involvement in the tasks necessary to sustain and further the development of the firm. These conditions then produce increased investment by companies that will thrive in the resulting work environment.

As a result of the preceding discussion, the outlines of a human resources development strategy by a developing country seeking to emulate the Little Tigers becomes clear. In the long term, the government needs to invest substantially in education because a value-added strategy cannot succeed without a skilled workforce. In addition, to contribute more directly to more immediate skills development, incentives for company-level training, national training funds, and wage increase policies that are tied to productivity gains are vehicles for the government to use to emphasize higher level adaptation.

At the company level, a similar strategy of linking wage increases to increases in productivity holds promise. At the level of individual employees, strategies that help to boost competence include increased training, performance-based pay, and programs to increase participation in and control over decision making related to their jobs. Objections can be raised that investments in training do not pay off because employees thus trained are soon lost to the company as competitors lure them away. While similar claims have been made by some U.S. companies to excuse low investment in training, leading companies such as Motorola and Hewlett-Packard spend substantial sums in training without regret. They claim that their training investments are one component of their attempts to build a total organizational environment that contributes to their employees' ability to develop their skills and talents. Employees who feel that their organization is providing them good opportunities for development are hard for competitors to lure away.

From Indonesia's perspective, the country and most of its companies still have a good distance to travel before it will have the ability to attempt a broadly-based high value-added strategy. In addition, this strategy tends to bring in work that is much less labor intensive than lower value-added manufacturing and assembly. Indonesia, however, faces the considerable challenge of offering employment opportunities for large numbers of citizens. The current strategies of the Little Tigers, while they may set an example of possible approaches in the more distant future, provide little guidance on a strategy to pursue over the next decade. The best strategy available to Indonesians is to seek to fill a need at a level above the lowest wage level industries but below the high technology ones.

As others have pointed out, the extent to which minimal wages serves as the barometer by which location of operations is chosen varies considerably across industries. If it was the most important factor, then countries such as Namibia and Bangladesh would be burgeoning with factories. In many industries, especially labor intensive ones, a more important consideration is not the absolute amount of wages but rather the comparison of wages paid with total value received in return. The key for Indonesian companies is to focus on increasing the total value received. The primary way to pursue this direction is to focus on improvements in the following areas: 1) professionalization of management, including middle management, 2) rationalization of workforce management systems, including increased use of performance-based work measurement and reward systems, and 3) increased skills training. Each of these elements will be discussed briefly below.

<u>Professionalization of management, including middle management.</u> The need exists to develop a high level of managerial talent. On the company side, the only way to satisfy this need is to change the decision making structures in organizations so that more decentralization of power and responsibility occurs. In addition, companies need to invest in the managerial training programs that will give their managers the skills they need to make wise decisions in the context of modern business practices. On the government side, more money needs to be invested in business management education. This investment can come in the form of subsidizing company efforts to provide management training, increased funding for university and graduate level business programs, and seeking assurance in agreements with multinational firms that technology transfer will not only focus on the scientific and technical domain but also on the managerial one.

<u>Rationalization of workforce management systems, including the beginnings of performance-based work measurement and reward systems.</u> A key element in developing a more attractive environment for business investment is to seek improvements in productivity. The most effective way to seek such improvements is through the rationalization of workforce management systems. Systems must be utilized that emphasize employee and managerial accountability for results. Compensation systems must be implemented that reward employees and managers for achieving performance-based goals. The mix of individual versus group measurements and rewards depends on a host of factors, including cultural practices that emphasize teamwork versus individual achievement, the extent to which jobs are independent versus interdependent, and the extent to which productivity can be influenced by factors within the employees' control.

On the government side, the key role to play is that of advocate for rationalization. A major statement is made when government agencies and state-owned firms themselves seek to rationalize their systems. Perhaps more important, the environment is set for rationalization by the extent to which objective, competency based criteria are used in decision making in important domains. When companies obtain government contracts on the basis of their competence, when weak performing government-related companies are penalized rather than supported, and when government officials are promoted based on their performance, an environment is established that sets the tone for the encouragement of modern management practices. These practices in turn encourage multinational investment because a major force in business management is to seek predictability and minimize uncertainty. Predictability and reduced uncertainty in the long run are easier to achieve using objective standards for decision making.

Increased skills training. To pursue a rationalization strategy requires the ability of the workforce to respond to performance-based systems. The ability of managers to respond was dealt with in a previous point. The ability of employees to respond forms the most direct basis for the comparison of wages to value added. Employee response in contingent on the ability and willingness to operate in the changed system. Regular training programs are necessary to explain how the systems work, what is expected of employees, and how to succeed in them. For example, many Japanese companies emphasize the concept of continous improvement. In the United States and Europe, various forms of total quality management are being heavily utilized (exemplified by the criteria for Baldridge Award in the U.S. and ISO 9000 standards developed in Europe). To perform adequately in response to these expectations requires that even production employees demonstrate capabilities for statistical calculations.

A necessary government response is to provide funding to subsidize company training programs in areas vital to the upgrading of production standards. Without them, companies operating close to the margin will feel constrained in absorbing the costs involved. The government also needs to invest heavily in education at several levels. First, the opportunity to achieve a solid basic level of education must be universally available. Second, technical training at the secondary level must provide students the skills to contribute to company productivity when they enter the workforce. Third, more advanced technical education at training institutes or polytechnics must provide updating of state-of-the-art techniques and could form the basis for training centers to provide the instruction needed by specific companies.

This strategy makes it clear that government and business need to work together in order to contribute to each sector's goals for competitiveness. Neither sector can succeed on its own. As foreign capital and companies continue to enter Indonesia, the business sector should be strengthened so that it can operate more independently of government. With neither sector able to dominate the other, and with both sectors showing concern for the welfare of citizen-employees, the hope is that a three-way partnership can emerge that will prove able to develop policies for international competitiveness that will benefit all three sets of interests. The most fruitful direction for such policies appears to exist in attempting to fill the gap between the lowest-wage approach of emerging economies and the increasingly technology-based approach of the Little Tigers. Rationalization of the managerial and production systems of Indonesian firms offers the best opportunity to follow this path.

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