Human resource management in Indonesia

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Abstract

Until relatively recently, Indonesia has been one of the least known countries despite having the fourth largest population in the world. Nevertheless, there has been a relatively rich lode of scholarship in Indonesia in the social sciences such as economics, politics, and anthropology. Much less has been written on business and management in Indonesia. Writing on human resource management (HRM) has been rare and limited mainly to labor economics and macrolevel human resource development. However, interest in Indonesia has grown in the wake of major political and economic crises it has suffered since the onset of the Asian crisis in mid-1997. There is also an increasing awareness that HRM will be an important factor in shaping the future of the country. Therefore, the aim of this paper is to describe HRM in Indonesia with particular focus on the environmental context.

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1. Introduction

Little attention has been given to human resource management (HRM) in developing countries (Arthur, Woehr, Akande, & Strong, 1995), and Indonesia, with the fourth largest population in the world (Manning, 1998), is one such case. Until about 1997, Indonesia was one of the least known countries (Bresnan, 1993), but since this time, the country has become known for almost continuous political and economic crisis. Prior to the crisis, Indonesia had grown at around 7% per annum (Liong, 1999). Reduced poverty and improvements in social indicators such as literacy levels and life expectancy had seen Indonesia become one of Asia’s
newly industrializing countries. However, even though most of Asia has begun to recover from
the worse effects of the crisis, Indonesia is still struggling to recover from its unprecedented
economic, political, and social problems. In the context of both the crisis, the incipient
recovery, and the impact of globalization on businesses in general, more attention is being paid
to the need for effective HRM in Indonesia (Budihardjo, 1996; Ciptono, 1998; Kismono,

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 macrolevel 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
relations books on Asian and East Asian countries have failed to provide chapters on Indonesia
(e.g., Deery & Mitchell, 1993; Nish, Redding, & Ng, 1996). Similarly, the Teagarden/Von
Glinow research consortium, which has included Indonesia as one of the target countries, has
not yet reported specifically on Indonesia (Teagarden et al., 1995).

This significant gap in the literature is important because of the different context for HRM
evident in Indonesia, especially given the increasing number of calls for HRM researchers to
take context more seriously (Jackson & Schuler, 1995). Both internal contextual factors (such
as technology, structure, size, organizational life cycle stage, and business strategy) and
external contextual factors (such as the legal, social and political environments, unionization,
labor market conditions, industry characteristics, and national cultures) (Hollinshead & Leat,
1995; Jackson & Schuler, 1995) need to be considered. This paper covers much of the Sparrow
and Hiltrop (1997) framework for describing HRM practices, providing a strong focus on
external context.

Highlighted will be the context for HRM in Indonesia, beginning with a discussion of the
business context, followed by a discussion of the demography, legal, and industrial relations
context, general conditions of employment, issues in core HR functions (including equal
opportunity policy and practice; recruitment, selection, and retention; training; compensation;
performance management; and separation and retirement), a brief discussion of multinational
HRM practice, the role of HR managers, and an overview of current challenges for HRM in
Indonesia.

2. HRM in Indonesia

2.1. Business context

Indonesia is a country with enormous diversity and general HRM challenges. The Asian
economic crisis has had a profound political and economic impact on Indonesia. The business
sector, most notably the large conglomerates and state enterprises, shared some of the blame
for the crisis. Their excesses, in particular large unhedged foreign loans that could not be paid
back as the rupiah, the Indonesian currency, plunged as international confidence in the country
evaporated, has led to the near bankruptcy of the sector (Habir, 1999). The period since the
The financial crisis began in August 1997 has presented one of the biggest political, social, and economic challenges Indonesia has faced for 30 years. During the crisis, Indonesia has moved from a corrupt authoritarian regime dominated by a powerful presidency to a fledgling democracy struggling to recover from the excesses of the Soeharto government (Emmerson, 1999). Since the fall of Soeharto, the country has experienced two changes in presidents. But the transition was a relatively democratic one, and now Indonesia finds itself the third largest democracy bestriding a strategic area of the world. That democracy is still precariously placed as previously pent-up demands and aspirations find voice in a more democratic setting. These demands have resulted in continuing political instability as ethnic, regional, religious, and labor aspirations are expressed. Needed legal and judicial reform have been largely ignored in the economic turmoil and political maneuvering.

The business world is still stagnant as the implementation of many important reforms mandated by the International Monetary Fund in such areas as the financial sector and the state sector has been obstructed by nationalistic and patrimonial forces. There has also been a considerable exodus of mainly professional ethnic Chinese Indonesians and massive capital flight from the country.

Domestically, the press, parliament, and NGOs, specifically organizations such as Indonesian Corruption Watch and the Indonesian Transparency Society, have become more active in overseeing business in Indonesia. However, as mentioned above, the weak legal structure in Indonesia remains an obstacle to the attempts for business reform.

Despite a transition to a more democratic government, and perhaps because of it, the country finds itself possibly more divided along religious, ethnic, economic, social, and political lines than ever before. Thus, a challenging societal environment exists in which HRM needs to be practiced. The discussion on the demography begins to illustrate some of the challenges.

2.2. Demography

Indonesia (or more correctly, The Republic of Indonesia) comprises over 13,000 islands and a land area of about two million square kilometers (Tambunan, 1995). The main language of the 207 million people is Bahasa Indonesia, although there are 250 other regional languages and dialects (Bishop & McNamara, 1997). While approximately 70% of the population lives in rural areas (Levinson, 1998), cities such as Jakarta, Surabaya, and Medan continue to grow as rural residents seek work in the urban areas. There are at least 200 ethnic groups (Ban ethnic Chinese, 1997) with only four considered to be significant numerically: Javanese (45%), Sundanese (14%), Madurese (7.5%), and Coastal Malays (7.5%) (Levinson, 1998). The ethnic Chinese represent less than 5% of the population yet are reported to control 60–80% of Indonesia’s economic activity (Ban ethnic Chinese, 1997). Muslims constitute 87% of Indonesians, Protestants are represented by 6%, Roman Catholics by 3%, Hindus by 2%, and 1% by Buddhists (Levinson, 1998).

The number of people living below the poverty line had soared to 95.8 million (or about 48% of the total population) by the end of 1998 (Harsono, 1999). Even prior to the contraction, there were estimates of over a third of the Indonesian labor force being either
underemployed or unemployed (Hadiz, 1997). High school and university graduates form the bulk of the unemployed in the cities and towns (Manning, 1999), part of which has been explained by selective job search behaviors (Manning & Junankar, 1998). Small enterprises account for about two thirds of all employment (van Diermen, 1997). The labor force may be divided into the following categories: agriculture—45%; industry—16% and services—39% (CIA, 2003). However, as nearly 70% of the “employed” work in the informal sector (Firdausy, 1995), it will need to be remembered that much of the discussion here will be inapplicable to the majority of “employed.”

In the formal sector, the proportion of women has increased to 39.2% (Triaswati, 1996), but much of this increase has been in the in the workforces of low-skilled labor-intensive industries where women are perceived to be more easily managed than men (Hadiz, 1997).

For example, women dominate the workforce in industries such as tobacco, textiles, and food and beverages, and according to White (1990), employers prefer them not only due to their perceived dexterity and patience, but also for their unassertiveness and deference to authority. Women generally receive lower wages than men for certain basic, business, and technical skills. However, such income disparity between men and women diminishes significantly with greater educational achievement (Triaswati, 1996).

Although some women have attained senior positions in both the public and private sectors (Habir & Larasati, 1999), women represent 37.4% of employees in the civil service but only 5.5% are in positions of authority (Bureau of Democracy, Human Rights and Labor Human Rights (BDHRLHR), 1999). Notwithstanding this, the Indonesian government claims that Indonesian women have attained equality as evidenced by their participation in limited roles in the military (Sunindyo, 1998).

2.3. Legal and industrial relations context

Indonesia’s Human Rights Stipulation of the People’s Consultative Assembly (No. XVII/MPR/1998) sets out a Human Rights Charter that proclaims the right to life, personal development, justice, freedom of association, employment, and provides for protection from discrimination. However, as described below, the country is still a long way from achieving those ideals.

The law in Indonesia arises from numerous sources, is extremely complicated and somewhat vague, and much discretion is left to government authorities (Bennington, 2001). The system has been described as “either primitive or entirely co-opted by the military–business elite or both,” and the law is essentially the political culture of the time (Lindsey, 1999, p. 11).

Many “safeguards” are provided in Indonesia’s legal code, but “in many important respects that protection is not available in practice. The legal system (is) unresponsive, corrupt, politicized and ineffective, (and) offers little recourse to the individual in righting perceived wrongs” (Schwartz, 1994, p. 245).

The politically skewed labor relations system in Indonesia, which is weighted heavily against workers, was justified by using the national ideology of Pancasila to suggest that industrial relations should be conducted in the context of partnership and production;
partnership and profit; partnership and responsibility towards God the almighty, nation and state, and the community; fellow employees and family; and the employee (Fehring, 1999).

Hadiz (1997) suggests that industrial relations are reflected in the role of the benevolent father to both capital and labor, with no acceptance of the right of workers to strike as this would contravene the family-like principles which govern Pancasila.

The tight control of the labor force has also been justified by the need to maximize the attractiveness of Indonesia to foreign investors (Islam, 1989). However, during the Soeharto era, a very heavy-handed labor policy was premised on the fear that labor unions were communist-inspired organizations (Hadiz, 1993). This led to one of the more disturbing features of the history of industrial relations in the Soeharto period in which many who protested about the prohibition of labor unions and demanded better conditions of employment were sentenced to jail, disappeared, or killed (Woodward, 1996).

The government directed and controlled the labor movement by sanctioning the All-Indonesia Worker’s Union, initially FBSI and later the Serikat Pekerja Seluruh Indonesia (SPSI), as a government-supported organization and by making it difficult for independent unions to establish themselves. The government also controlled national and regional leadership positions in the SPSI and vetted enterprise union leaders by security authorities. Despite such pervasive control and repression, there was an increase in wildcat strikes in the latter part of the Soeharto period (Manning, 1993, p. 83).

After Soeharto’s resignation in 1997, Indonesia, under the transitional government of President Habibie (1997–1999), finally ratified on June 1998 the International Labor Organization’s 1948 convention on the freedom to organize. During the new government of Abdurrahman Wahid, who was elected as President in 1999, the combination of a more open and democratic government, the partial descendancy of the power of the military, an increasing militancy in unions, and the dire economic conditions brought about by the economic crisis have all led to an increase in labor disputes and strikes.

Although many labor disputes are caused by specific grievances related to a particular area, company, or plant and are not necessarily union led, the more democratic climate has led to increasing union activity. As already mentioned in 1998, the government ratified ILO Convention 87 on freedom of association and issued a new regulation on the registration of workers’ organizations (President Habibie signs ILO convention on unions, 1998). Private sector workers can now legally form worker organizations without prior authorization, and unions may draw up their own constitutions and rules and elect their representatives. The new regulation does away with numerical and other requirements that were previously a barrier to union registration. Unions can now register at the factory, district, provincial, and national level and form federations and confederations. However, the regulation prohibits unions based on political orientation, religion, gender, or ethnic groups.

The Law on Manpower Affairs enacted in October 1997 allows workers to form unions on the basis of “democratic consultation” with other workers in the same company and they may join with other unions to form sectoral and intersectoral federations. The law was scheduled to take effect on 1 October 1998, but to allow time for revision, consultation with concerned
groups, and preparation of implementing regulations, the Parliament amended it to postpone implementation until 1 October 2000 (Surowidjojo, 1999).

Formerly employers faced 3 months imprisonment or a fine of up to 100,000 rupiah for noncompliance with labor legislation. The new labor bill provides for fines of 50 million rupiah and a maximum sentence of 6 months in jail (House passes labor bill, 1997). However, such penalties have seldom proven to be deterrents and appeals for employers to treat workers better still continue. For example, the governor of Jakarta has called for changes and has quoted research findings that six factors lead to disputes between employers and employees: the minimum wage, workers’ demands for pay increases, overtime fees, doing overtime, incompatible worker–employer relationships, and lack of freedom to pursue career or education (Employers told to treat workers better, 1997).

With the new revisions to the law, workers can now go on strike without fear of losing their wages (A new labor law, 1997) provided that at least 72 hours notice is given to the government and the employer. However, strikes are confined to the factories or workplaces where the disputes occur while street rallies are banned. Other revisions include the requirement for trade unions to register themselves and the names of all of their members with the Ministry of Manpower.

The legal changes have not stopped criticisms directed at the government’s industrial relations policies. For example, the editor of the Jakarta Post has argued that the new legislation still does not guarantee the workers’ most basic rights but that it does provide some assurances to investors that their operations will not be continually disrupted by strikes (A new labor law, 1997). The Indonesian Prosperity Trade Union (SBSI) claims that companies are continuing to fire SBSI members because of their affiliation with the union or because they sought to organize SBSI units within their factories; and the SBSI has indicated difficulties in registering some of its workplace units (BDHRLHR, 1999).

Even though the government has stated that the regulation requiring police approval for all meetings of five or more would be relaxed, in practice, it continues to apply to union meetings. The law still requires intensive mediation and prior notice (not approval) to strike before a strike can occur. However, in practice, dispute settlement procedures are rarely followed, and formal notice of the intent to strike is rarely given because Department of Manpower procedures are slow and have little credibility with workers (BDHRLHR, 1999).

Reports still circulate on the involvement of the police and the military in labor matters, although their involvement is now less visible. One exception to this was when army troops, who were pelted with rocks and other missiles, fired rubber bullets on striking workers at a steel plant near Jakarta—23 workers, as well as three soldiers, were injured (BDHRLHR, 1999).

A common feature of the culture in Indonesian organizations is the *keluarga besar* concept, which means that staff are seen as part of “one big family which shares common purposes, and friendly and familiar relationships” (Rohdewohld, 1995, p. 115). One illustration is the practice of either paying married workers more than unmarried workers or by providing extra allowances for those with a spouse and children (e.g., a larger allocation of rice per month).
Another example is compulsory membership of KORPRI for civil servants, a nonunion association, and Dharma Wanita, the organization of civil servants' wives. However, such organizations are commonly held to be aspects of Soeharto era political control rather than culture, and questions are being raised on their suitability in the present climate in Indonesia. State enterprise employees, defined to include those working in enterprises in which the State has a 5% holding or greater, are usually required to join KORPRI, but a small number of state enterprises have SPSI (All-Indonesian Worker’s Unions) units.

2.4. General conditions of employment

There are three types of employment regulated by the Employment Law: fixed period employment, which requires a written contract in Bahasa Indonesia; indefinite period or “permanent” employment for which a written contract is not mandatory; and traditional employment in the informal sector, which is essentially unregulated (Surowidjojo, 1999). A 3-month probationary period applies to permanent appointments, and once this period has expired, the termination of their employment is almost impossible; government approval is needed (Surowidjojo, 1999).

The requirements on employers are onerous because the conditions of employment are highly regulated (Surowidjojo, 1999). However, it might also be said that sympathy should not be misplaced because workers are often required to work very long hours with little pay (White, 1990).

In the very large informal sector, most workers are not registered or covered by employment regulations. Moreover, many employers only pay workers’ social security contribution fees (which cover old age, death, disability, permanent disability, occupational accidents, and diseases contracted from the workplace) in respect to permanent workers; not for those employed on a contract basis (A worker killed every other day, 1997). However, as mentioned, notwithstanding the sheer size and importance of the informal sector, the discussion here focuses only on the formal sector.

There is a minimum wage level that differs depending upon the region, although the discussion in Indonesia is now turning more to an appropriate wage rather than a minimum wage. For Jakarta, the minimum wage is IDR286,000/month or approximately US$36 (at May 2000 exchange rates) or about US$1.50/day. In the past, Hadiz (1997) and Manning (1993) have argued that the minimum wages have been set much lower than that which would cover the minimum physical needs of a single person. It is now believed to provide for about 95% of the minimum physical requirement of people (Military involvement, 1997), which is still significantly lower compared to other Asian countries such as Thailand, Philippines, South Korea, Taiwan, Hong Kong, and Singapore (Tjiptoherijanto, 1998).

The minimum wage rate does not mean that all employers actually pay to this standard; many pay less because they can seek compliance deferral for up to 12 months. By way of rationalization, some employers have complained that their businesses cannot afford increases in the minimum wage due to the very high prevalence of so-called “invisible costs” of doing business, which range from graft to money made available to ensure cooperation from the
military. Lesmanaa (1999) and others (Corruption keeps money from wage earners, 2000) have reported that these “fees” paid by employers to various government agencies are seen as normal practice in bureaucrat–business relationships. The “fees” help employers to obtain licenses and protect them from workers; it is this collusion that is attributed with the prevention of disputes at production facilities (Lesmanaa, 1999). This state of affairs does not come cheaply though as cost estimates vary from 2% to 30% or more of total operating costs (Hadiz, 1997).

Employers are also “required” to provide other minimum conditions such as paid annual vacation leave of not less that 2 weeks per year, 12 paid public holidays per year, 7 hours per day or 40 hours work per week with 1 hour of rest for each 4 hours of work, incremental overtime rates, sick leave up to 12 months, not all fully paid, accident compensation that covers all medical costs, including death benefits, social insurance (the employer must contribute 5% of the employee’s salary, the employee contributes 1%, and the government contributes 2%), severance pay, service pay based on organizational performance, and wage protection with interest to be paid on unpaid wages (Bennington, 2001). Protection is also granted specifically to those who suffer from illness in that they cannot have their services terminated if they are absent for less than 12 months. Sick leave payments are perhaps more generous than that provided in many western countries, but the social security context makes this necessary, e.g., payments consist of 100% of salary for the first 3 months, 75% of salary for the second 3 months, 50% of salary for the third 3 months, and 25% of salary for the final 3 months (Geringer, Frayne, & IPMI, 1993).

While the Ministry of Manpower continues publicly to urge employers to comply with the law, in reality, government enforcement and supervision of labor standards are generally weak. A shortage of labor inspectors, lack of effective sanctions, unwieldy procedures for conflict resolution, and possibly unrealistic standards for Indonesia’s level of development (Manning, 1993) have been blamed for breaches in labor laws.

Conditions of employment in the civil service are somewhat different, complex, and opaque. Apart from the usual rights, civil servants participate in health and pension insurance schemes and at least until recently had lifetime security of employment. Because oftentimes the income of a civil servant may not reach the minimum standard set by the government and is not sufficient to cover the cost of living (Rohdewohld, 1995), salary supplements are provided in the form of various standardized allowances such as rice and family allowances, special allowances when working in remote areas, housing or a housing allowance, medical care, and either transport to and from work or a gasoline allowance. When civil servants are working on specific “aided” projects, extra payments, which can be very substantial, are also paid, e.g., a house to live in, a monthly voucher for petrol, rice, and project honoraria.

Depending upon the experience level and point of reference, senior managers in Indonesia will argue that there are fewer employment regulations in Indonesia than elsewhere and that compliance is not a problem, or that compliance is a problem, and/or that there is greater regulation than elsewhere but virtually no enforcement. Due to the problems of public access to legal information (Rohdewohld, 1995), it is possible that many simply do not know what they are required to do anyway.
3. Issues in core HR functions

3.1. Equal opportunity policy and practice

The constitution does not explicitly forbid discrimination based on gender, race, disability, language, or social status but it does stipulate equal rights and obligations for all citizens, both native and naturalized. Notwithstanding that equal opportunity is not a priority for Indonesian companies (Hutchings, 1996), it is of interest to consider the equal opportunity policy and practice in respect to a number of specific “diversity” factors in Indonesia. The approaches to forced and child labor, women’s opportunities, ethnic and religious diversity, and opportunities for the disabled and older workers tend to vary somewhat from those adopted in many western countries.

3.1.1. Forced labor and child labor

The government prohibits forced and bonded labor by children but does not always enforce this effectively (Bennington, 2001). Since the economic crisis, it is believed that at least 2 million children work at least 4 hours a day (BDHRLHR, 1999). Employers are allowed to hire children but they must provide access to education, socialization, and “mental and spiritual” guidance and they must not work them for more than 4 hours a day (Soeharto asks Latief, 1997). Since 1987, parental consent has been required and dangerous or difficult work has been prohibited for children. There is no minimum age for children “forced to work for socioeconomic reasons” but adolescents (ages 15–17) cannot work during certain hours of the night, below ground, in mines, or in jobs that would have an adverse effect on morality, such as in entertainment facilities (BDHRLHR, 1999). Even though there are many reports of terrible working conditions and appalling pay for children (see Bangun & Sprague, 1999), no employer is known to have been prosecuted.

3.1.2. Gender

Although the constitution states that women are equal to and have the same rights, obligations, and opportunities as men, in practice, women face some legal discrimination (BDHRLHR, 1999). Female workers in manufacturing generally receive lower wages than men, and many jobs are gender stereotyped to the disadvantage of women (Cukier, Norris, & Wall, 1996).

Apart from receiving lower wages, women are often hired as day laborers instead of as full-time permanent employees so that companies avoid providing benefits, such as maternity leave, and in some cases do not receive employment benefits, such as medical insurance and income tax deductions.

Women do receive extra provisions though, such as 3 months paid maternity leave and 2 days paid menstruation leave per month. They are also protected from dismissal due to marriage, pregnancy, or confinement (Bennington, 2001). Other protections include special conditions regarding work at night (e.g., the employer is obliged to make a written request to the Local Office of the Department of Manpower, which sets out the kind of business and character of the job and the reasons why they want to employ women at night). The employer...
is required to give full protection on safety, health, and “sexuality” by ensuring that the female worker is not pregnant and at least 18 years old, and the employer must provide transportation and good nutritious meals and drinks. Women are also “prohibited to work in mining and any jobs that are dangerous for their health, safety, and honor” (Triaswati, 1996, p. 20).

Notwithstanding the protective legislation for women in some areas, the regulations are reported to be commonly neglected (Grijns & van Velzen, 1993). For example, the government has acknowledged that pregnant women often are dismissed or are replaced while on leave; and some companies even require that women sign statements that they do not intend to become pregnant (BDHRLHR, 1999). One social legal aid information center recorded an 80% increase in legal cases for women in 2 years until 1997 with half of the complaints being related to pregnancy, about one quarter related to marriage to coworkers, and about 7% related to employers refusing to allow time for breast feeding at work (Women workers, 1997). Some job advertisements even overtly require that female applicants be single (Women workers, 1997).

Even though women are allowed 2 days of menstrual leave per month by law, this leave is not allowed in all cases, and some women in management positions will not openly take such leave but instead report that they are working at home. Some multinational companies do not provide menstrual leave but indicate preparedness to consider this benefit on an individual basis if requested by a female worker. On the other hand, some companies indicate that their businesses would not cope if all of the women took this extra time off every month.

Issues pertaining to women workers remain sensitive and have led to protest marches (Protesting workers make 10 km march, 1999). Some companies in Indonesia place strict controls on the behavior of unmarried women requiring that they live in company dormitories and their activities outside working hours are also monitored (Hadiz, 1997).

On the other hand, sexual exploitation of women in the workplace is not uncommon (Hill, 1996), and even though only a small percentage of harassment incidents are reported, when they reach court, women generally lose their cases! (Triaswati, 1996).

In theory, women have the same rights as men in respect to employment, yet the guidelines from 1978, 1983, 1988, and 1993 also state that women’s participation in the development process must not conflict with their role in improving family welfare and the education of the younger generation. Conversely, in March 2000, Indonesia signed the protocol of the United Nations Convention for the Elimination of All Forms of Discrimination Against Women (Corruption keeps money from wage earners, 2000) so the situation for women may improve.

3.1.3. Ethnicity and religion

Although the government officially promotes racial, religious, and ethnic tolerance, this would appear to be out of control in some areas of Indonesia, such as Maluku and Aceh, where violence at the time of writing continues unabated. Even the requisite “citizen identity card” carries information about the person’s name, date of birth, place of birth, religion (and this must be one of five recognized religions), address, and until very recently, a special symbol was placed so that Chinese could be readily distinguished from other Indonesians (Ching, 1998). The new government has since done away with the discriminatory sign.
Discrimination is rife on ethnic and religious grounds—sometimes this is “positive” discrimination (e.g., preference for Chinese in certain positions such as finance or marketing roles) but mostly it is negative. The ethnic Chinese, who constitute less than 5% of the population and are major players in the economy, are often discriminated against. The Chinese have been restricted from joining the civil service, state enterprises, the armed forces, the police force, and from entering a university. At the same time, the large Chinese Indonesian business groups that dominate the private sector as well as pribumi or ethnic Malay companies normally recruit out of their own ethnic pool.

Given that over 85% of the population is Muslim (Bishop & McNamara, 1997), the focus is on providing for their religious needs. For example, although a prayer room is not compulsory, many employers will provide a suitable venue and employees are provided with time—not more than 10 minutes five times a day for the purpose of prayer. Extra time is provided for religious purposes on Fridays. Many employers are very conscious of the possible issues that can arise in respect to religious differences so have made efforts to accommodate different religious beliefs, although none would be so extensive as for those of the Muslim faith.

3.1.4. Disability

Companies that employ over 100 persons are required to provide 1% of their jobs to the disabled. It is not difficult to predict, with discrimination against women and other groups being prevalent, that this law will have limited success in the foreseeable future. Although some factories have made special efforts to hire disabled workers, most of those with disabilities will be dependent upon family or reduced to begging for a living (Government studies required hiring of disabled, 1999).

3.1.5. Older workers

Age “discrimination” legislation does not exist in Indonesia. Advertisements in Indonesian newspapers and Indonesian Internet sites commonly refer to age, gender, and the need to provide a photograph.

3.2. Recruitment, selection, and retention

Recruitment tends to be a high priority in the private sector due to both growth and turnover rates (e.g., 11–13% in one manufacturing firm was seen to be high). It takes on added importance because of the difficulty of dismissing employees, which requires government authorization in each individual case, and because local staffs tend to be inclined to low levels of loyalty and high “job hopping” behaviors. Multiple methods of recruitment are used by firms in Indonesia (e.g., word-of-mouth; print advertisements): referral from universities, recruitment consultants, and the Internet. Advertising is very expensive in the few newspapers considered to have the reach to make an advertisement placement worthwhile and therefore not used as frequently as in western countries. Excluding unskilled occupations, the order of importance of factors in recruitment is generally as follows: age, education, sex, marital status, and training, with age seen to be important by the most number of employers and training as the least important (Report, 1997). At managerial levels, patronage still exists but seems to be
lessening, but in the public sector, politics and patronage continue to play a dominant role (Habir, 1995). There is evidence to suggest that there are shortages of “quality employees” in marketing, finance, and systems. Quality is seen to relate primarily to motivation and productivity.

The recruitment of expatriates is a sensitive issue and attracts quite a deal of attention, arguably due to the number who seek extensions to their work permits. They are only allowed in positions that cannot be filled by locals (Tjiptoherijanto, 1998), and for every 10 local workers hired, a maximum of one expatriate will be allowed (King, 1993). According to Soeharto asks Latief (1997), there are about 70,000 expatriates working in Indonesia. Increasingly expatriates are recruited from other Asian countries, such as India and the Philippines, to staff middle management ranks. Although the majority of registered expatriates are from the United States (Hugo, 1993), over recent times employers have found them to be too expensive. Due to the differences in salaries between local workers and expatriates, there is a government decree requiring expatriates to pay US$100 per month during the period of their contracts to finance vocational training programs for local workers (Soeharto asks Latief, 1997). There is also regulation to ensure the “Indonesianization” of positions held by expatriates. However, with the coming ASEAN Free Trade Area (AFTA) in 2003, such regulations may have to be removed or adjusted.

Retention of staff is a stated goal of HRM in many organizations due to the practice referred to as the “hijacking” (poaching) of highly skilled staff. This mostly occurs in respect to employees who are university graduates, although there is the case of P.T. Zebra Taxi in Surabaya, which had 90 out of 220 drivers hijacked at one time (Lecraw & IPMI, 1991). It is noteworthy that the reason that a further 55 were not hijacked was because they were on secondment to P.T. Zebra Taxi from the marines. Some HR managers are very frustrated by the “hijacking” activity because it seems that even if jobs are enriched, compensation seemingly generous, and succession plans clearly in place, nothing will prevent it.

3.3. Training

No government-imposed training levy applies across all sectors in Indonesia, although in some sectors such as banking, the Central Bank of Indonesia has required that 5% of salaries be spent on training. In respect to companies, the estimate of training expenditure is about 1% of payroll, which is about the amount spent in most newly industrialized countries (Report A, 1997). At the government level, Presidential Decrees in late 1994 stipulated that staff would have to be trained before they could be promoted; the intention being to eliminate automatic promotion every 4 years. Also, the Ministry of Home Affairs makes participation in training and education compulsory and requires every unit within the Ministry to allocate 15–30 days per annum per employee for education and training. Although the amount is believed to be much greater than in the private sector, quantifying it seems to be almost impossible.

However, there is also criticism from some quarters that, in the civil service, training has failed to achieve its goal to contribute to greater efficiency. Instead, it is used primarily for the salary supplements and promotions it attracts and for the private benefits it generates through
moonlighting (Report A, 1997). Further, it has been found that the more educated receive more formal training than the less educated (Report A, 1997). Since the economic meltdown though, there are reports that organizations are refusing to spend money on training just as they are failing to provide salary increments.

3.4. Compensation

There is little transparency in the compensation systems that apply in both public and private sectors in Indonesia. A paternalistic attitude continues as evidenced by the rice allowance, which although difficult to quantify creates interesting economic behavior, e.g., it is not unusual for middle to senior government officials to sell their rice allocation to more lowly paid members of their organization, who in turn sell the rice back to the (government) rice market. This is attributed to the rice being very old and of poor quality. On the other hand, some give their rice allocation to others in return for special favors, such as information. These allowances do not exist in the same way in the private sector; however, the private sector employee is likely to earn as much as four times that of a civil service employee (Rohdewohld, 1995).

What is very obvious in Indonesia is the enormous difference between the lowest and highest paid employees in many organizations. For example, this ranges from 1:7 in the civil service (Rohdewohld, 1995) to 1:20–1:150 in the private sector.

3.5. Performance management

Productivity and quality of labor are seen to be major problems in Indonesia. For example, Report A (1997) shows that output per worker in Indonesia is about one quarter that of Korea and one tenth that of the United States. However, it is acknowledged that these data fail to take into account unit labor costs, which result in an Indonesian worker being seen as three times more productive than an American worker and twice as productive as a Korean worker. A comparison of the quality of production labor across many countries in the region indicated that Indonesia’s labor was readily available but ranked alongside China in having the lowest quality rating (Report A, 1997). In respect to the availability and quality of managerial labor, Indonesia was joined by China, Thailand, and Vietnam on the worst possible rating and at the same level in terms of low availability with countries such as China, Hong Kong, Singapore, Korea, and Thailand (Report A, 1997—citing International Herald Tribune, July 29, 1991).

Rohdewohld (1995) reports that in the public sector, absenteeism is high and that even if employees are at work, they may spend their time preparing for “private” work. He argues that due to the inadequacy of government salaries, “moonlighting” is accepted in the workplace. This attitude is also illustrated in the following statement: “many government employees still tend to look upon their salaries as something more akin to a retainer, with extra payments from the public filling out the rest of their ‘legitimate’ compensation package” (Schwartz, 1994, p. 136).

Furthermore, due to the low salaries of civil servants, there is a tendency to concentrate on obtaining allowances such as the project honoraria, which can result in the neglect of routine
activities that do not attract this allowance, and as many activities as possible being reformulated into projects. Rohdewohld (1995) describes this phenomena as “projectism,” which he says leads to “a rather erratic, incremental, and spontaneous way of work which is dictated by the supply of domestic or foreign project funds” (p. 102).

The culture, particularly in the civil service, has been described as reflecting its Javanese heritage in terms of the tendency to avoid open criticism, the preference for consensus and harmony, the importance of oral communication over written communication, and the importance of personal relationships over functional relationships (MacAndrews, 1986, cited in Rohdewohld, 1995).

Performance appraisal systems vary across organizations from a management by objectives approach to upward and 360 degree feedback. Views differ on whether either upward or 360 degree feedback actually works in the Indonesian culture (or multitude of cultures) because directing rather than delegating is seen by most managers in Indonesia as the best style, so it is difficult to understand how such an approach might succeed.

Rewards for good performance vary from an extra month’s salary to an extra 12 month’s salary for individuals, and some incentives are based on team performance. In the civil service, promotion is not unduly affected by performance given that promotion is an employee’s right, but it is possible that other benefits might flow from “good” performance such as fully paid training and education outside of Indonesia.

3.6. Separation and retirement

Although some industries still need to increase the size of their labor force due to expansion, others are finding that with increases in the minimum wage, the availability of labor saving technology, and the increasing global competition, that downsizing must occur. Permission is needed to terminate the services of any employee and this can be a drawn out process, effectively deterring many employers from embarking upon such an exercise. Even when termination is for a cause, “except in cases involving moral turpitude or serious criminal conduct” (Geringer et al., 1993), it is necessary to pay an amount equivalent to 1 month’s wages for each year of service up to a maximum of 4 months’ wages, as well as a prorata long service payment. In the public sector, it is almost impossible to terminate a person’s employment although the Inspector General of the Ministry of Home Affairs has called for the sacking of inefficient staff—“officials who complicate services by creating complicated procedures, collecting levies, or asking for bribes, should be got rid of because their practices cause a high cost economy and weaken the city’s competitiveness” (Inspector General calls, 1997, p. 3).

4. Multinational HRM practice in Indonesia

The large multinational firms have been subject to considerable criticism about their management of workers in third world countries, yet Hadiz (1997) argues that there is little evidence that they treat their workers any worse than other firms. However, Nike has been
singled out as one multinational providing bleak working conditions. In one instance, women in a rural Nike factory (which is a Taiwanese joint venture) were said to be considerably worse off than those who work in other factories—the local community referred to the women from Nike as “walking ghosts who work in Satan’s factory” (mereke pergi dan pulang seperti hantu dari pabrik Setan). Despite such reported conditions, Beeson and Hadiz (1998) quote the chief executive officer of Nike as saying that there are still thousands of Indonesians lining up for jobs at their factory gates! When the factory next to Nike was also given a Nike contract, the impact on the workers was both sudden and negative (Hancock, 1997).

Interestingly, apart from the Nike operation, most export-oriented factories adhere to national laws in respect to wages and working conditions, yet it is rare for them to pay women all of their wage, benefits, and leave requirements (Hancock, 1997). Notwithstanding this, Hancock (1997) found that most reported being contented with their employment conditions, but the question of choice may well need to be posed.

Hutchings (1996) says that although MNCs may have been respecting local customs and conforming to local practices, with regard to their treatment of women, it has been to their advantage. Although in some countries (e.g., India) companies might provide child care facilities, it has been argued in excuse that child care provisions and flexible hours are unheard of in Indonesia because it would not be culturally acceptable for parents not to take care of their own responsibilities and so such provisions would not be used even if provided (Hutchings, 1996).

5. Role of HR managers

The role of HR managers varies considerably and is somewhat dependent upon size, sector, cultural influences, and type of ownership of the business. The roles, although not mutually exclusive, vary between the provision of housing and social facilities for families in remote areas, personnel administration, relationship management, and preventing strikes. The ratio of HR staff varies too, although the norm is around 1:80 in organizations in which the HRM function exists in a recognizable form (calculating ratios of HR to other employees is a little different in this country due to the existence of employees, such as drivers who are assigned to managers but are not part of the HR staff as such). To reduce the ratio any further will require automation.

Human resource managers generally report to either the most senior manager under the chief executive or directly to the chief executive. The degree of sophistication, assessed on the basis of role clarity, perceived importance in the organization, and degree of delegation to line managers was most evident in the private sector services area. A subtle but evident thread in interviews with HR managers is the constant requirement for them to work at gaining credibility and justifying their role. Although some HR managers are highly qualified, HRM is not necessarily seen to be a prestigious role.

The title of HR managers varies across organizations. “Human resource development” rather than HRM is common because human resource development is seen as much broader than HRM, which tends to be seen as “personnel administration.”
As only one university in Indonesia offers a degree in HRM and relatively few subjects are taught in this area, the backgrounds of those working in HRM vary a great deal. Where professional HR practitioners exist, they tend to have either psychology or law backgrounds. The banking sector has a preference for those with a background in psychology, whereas the manufacturing sector has a preference for those with labor law backgrounds. However, some HR practitioners do not favor those with legal backgrounds because it is believed that when a problem arises, lawyers are “trapped in the system,” meaning that they have to follow the rules set down and cannot argue creatively as to why something different should apply. Some see advantages in having HR managers who have a management background because this is thought to provide leverage to management acceptance as an internal consultant.

6. Current challenges

The challenges facing HR managers in Indonesia are considerable. Culture change and having efficiency understood as a priority are the major challenge facing HR managers in both civil and private sectors. Talent search is seen as the major challenge for the service industry. In the civil sector, there is a perceived need for less bureaucratic behavior and more entrepreneurial behavior, presumably not of the kind that reflects the common reports of bribes being sought by civil servants and of projectism. In organizations in which expatriates are employed, there is a greater need to have expatriates focus on skills transfer and to “do themselves out of their jobs.”

In some cases, the degree of sophistication of HR practices is high, although the constraints imposed by the government regulations result in significant inefficiencies for those who have a professional approach to HRM focusing on fair compensation, prevention of occupational health and safety problems, development of the workers, etc. Some westerners might argue that there should be greater empowerment of the workers and greater involvement in the decision-making processes at the firm level. However, the profile of organizational behavior is quite different to that of western countries and to many other Asian countries. Hofstede (cited in Stening & Ngan, 1997) places Indonesians as very high in power distance and collectivism and quite high in “femininity” and in “uncertainty avoidance,” although other researchers have found that there is a narrowing of the differences between Indonesian and American managers compared to Hofstede’s earlier findings (Heuer, Cummings, & Hutabarat, 1999). As further evidence of more convergence than commonly perceived, Habir and Lasari (1999) have found cases of a number of large Indonesian companies (including state enterprises) that are successfully implementing such international practices as empowerment, participation, and incentive-oriented human resource systems. Based on these cases, the authors argue that the Indonesian culture is not necessarily an obstacle to such practices, as is so often perceived.

In conclusion, it would be unwise to generalize too much about HRM in Indonesia because conditions, philosophies, and practices vary widely across enterprise types, industries, and
regions. However, the challenges in respect to training, equity, labor regulations, and the chaotic legal system, as well as coping with the ethnic and religious tensions and the coming international free trade provisions, point to the need for incredible sophistication. Not surprisingly, recent reports from practitioners in Indonesia have indicated the utmost importance of HRM in Indonesia given its particular economic circumstances (Supriono, 1999).

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