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INDONESIA
MANAGEMENT DEVELOPMENT

A Multi-Donor Sponsored Study

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INDONESIA

MANAGEMENT DEVELOPMENT

SYNOPSIS

Background

This study was initiated at the request of the Government. It represents a collaborative effort of sponsoring aid agencies and Indonesian business leaders, educators and managers. A shared understanding of country-wide management issues has evolved from a large number of intensive interviews with policy makers, managers and administrators. Based on this understanding the study team proposes the broad outlines of a long-term strategy for management development and a structured learning process for carrying out further the detailed design and implementation of this strategy.

The study addresses a series of management development issues in Indonesia. They include: present performance problems and common practices; learning processes within organizations; capability of local management education and training, consultancy and research institutions; and the impact of certain public policies, systems and structures on managerial and institutional performance and development. As past significant achievements of Indonesia's economic development are known, particularly in nation building and macroeconomic management, this review focusses on the improvements needed for effective management of institutional changes to meet the demands of an emerging new environment.

Findings

There is a growing awareness of the costs of inefficient and ineffective management and of the need to mobilize and develop further the entrepreneurial, managerial and leadership resources of the country. The study highlights the costs in terms of policy and investment implementation problems, low productivity, poor maintenance, slow development of human resources, and perhaps more importantly, in terms of limited institutional adaptation and inability to exploit potential commercial opportunities and reach target beneficiaries. Progressive managers are deeply concerned with the dominance of macro constraints to their performance, the scarcity of entrepreneurial attitudes, the need to acquire new skills to manage increasingly complex institutions under environmental conditions of growing diversity and uncertainty, and the appropriateness of transferring foreign management tools to Indonesian institutions. Progress in addressing these concerns has been limited by: (i) the lack of broad policy and promotional forums; (ii) the limited attention of senior managers to these issues; and (iii) the absence of systematic effort and long-term perspective to promote and sustain the necessary changes.

A review of the managerial environment suggests that certain historical and cultural factors and managerial practices tend to inhibit the development of Indonesia's entrepreneurial, managerial and institutional resources. The study suggests that further research on these factors is

critical to adapt management improvement efforts and systems to the opportunities and constraints that such factors present. Technical assistance for management and institutional development should employ this understanding in a collaborative effort to build on cultural strengths and thus make present practices and institutions even stronger. In particular, the powerful "role model" of the senior manager as the "father figure" may be used to nurture subordinates and promote new managerial standards, while minimizing its authoritarian and centralizing aspects. Systematic efforts to inculcate entrepreneurial attitudes, support experimentation, and develop systems and incentives to reward responsibility and risk taking can overcome the colonial legacy which fostered passive attitudes.

Most of present managerial practices, such as excessive centralization, limited delegation, and preoccupation with controls and standardized procedures and solutions, are the result of adaptation to historical conditions and limited managerial skills. However, accelerated change of these practices is necessary for effective functioning in the emerging environment as this environment is likely to be highly competitive, complex, diverse and fast changing. This environment will put a premium on the role of managers in formulating policies and strategies, in developing human resources and leadership succession within organizations, and in creating cultures, incentives and processes that promotes organizational learning and high performance. If significant and sustainable improvements in managerial practices are to be accomplished, Indonesian managers themselves will have to be both the primary motivators and overseers of this change. Systematic examination of successful programs and institutions should yield important insights for promoting effective "home grown" managerial practices and technology. Highly successful programs such as Family Planning and INPRES suggest ways to decentralize, to build on the strengths of local institutions, to adapt to varying implementation capabilities, and to promote learning by doing through phased coverage and diversification of program activities.

While historical and cultural factors impose certain constraints, there are also key public policy and institutional factors with pervasive impact on the development and effectiveness of management in Indonesia and hence require further improvements. Public expenditure planning and budgeting and financial control systems are too centralized, short-term, and rigid to meet the increasing need for strategic and long-range planning and timely adaptation. Civil service policies need further improvements to reward full-time job commitment and high performance and to support responsibility-taking, on-the-job learning, and other management development processes. The increased need for policy analysis, effective implementation and continuous administrative improvement suggest further improvements in the policy support systems, career streams, organizational structures, and the linkages among the central policy-making agencies. Effective decentralization in the management of development activities calls for further improvements in the systems, staffing, and funding for those functions that could be most effectively carried out at lower levels of government. Regarding public enterprises, the need is to move from ad-hoc operational intervention towards formulating clear objectives, strategies and medium-term corporate planning processes. Other areas for policy improvements include the selection, motivation and development of managers and subjecting the role of public enterprises to continuous

and systematic review. Finally, the study identifies some of the problem areas in government-business relations and suggests improvements in the regulatory environment, communication channels, and support services, and organizing policy dialogues between private and government agencies.

The study reviews overall performance problems and needs of the central and local government agencies and public and private enterprises and assesses in-service management training within these agencies. The main conclusion is that there is a significant imbalance between the economy's needs for qualified managers and the present capacity to develop such staff. Most significant deficiencies are the lack of organizationally-based (in house) management development systems, the relative isolation of LAN and departmental training centers from line management concerns, the theoretical orientation of training, and the low status, inadequate incentives and lack of career streams for full-time trainers. Since the completion of this survey, LAN has initiated several activities to improve civil service training in line with the recommendations of the study. Local government management training and development programs suffer, in addition, from inadequate adaptation of the programs to the specific needs of various regions. With the exception of the Agriculture Training Institute, the sectoral training centers of public enterprises and most in-house training at public and private enterprises neglect management training and rely on external short-term training without the benefit of a plan or system for managerial and organizational development. Management training opportunities and advisory services for small businesses and cooperatives are insignificant in contrast to the large size of this target group. Management consultancy firms are in their infancy, but, with appropriate national policies for their professional development, they could make a valuable contribution to improving managerial systems and practices.

The review of formal educational institutions suggests that there are serious deficiencies in the productivity, quality and relevance of management and public administration education programs at most public and private universities. Among the major contributing factors at public universities are: (1) the weak link between educational planning and employers' need; and (2) low salaries, weak incentives, and inadequate organizational structures and measures of performance to promote excellence in teaching and research. While perhaps common to all disciplines, these constraints have a particularly negative impact on management and public administration education since this type of education needs to be adapted to the Indonesian environment and linked to the real problems facing practicing managers to be effective. Creating a management and accounting faculty (distinct from economics) at the major public universities would promote a less conservative and more entrepreneurial and practical approach to management education. The major constraint to the productivity and quality of management education at private universities is the shortage of finance for faculty and facility development, and thus the lack of an adequate number of students and faculty to allow economies of scale and excellence. However, since private institutions are not constrained by civil service policies or the bureaucratic culture of public universities, they have greater potential for innovating and responding to business needs, as LPPM has demonstrated. Public administration programs at public universities suffer similar problems, with the additional factors of limited access

to data for research on public management performance problems and weak links to local government development needs.

Recommendations

The study team has examined an extensive number of options and means that were proposed by many concerned Indonesian participants or based on a broad range of international experience and some promising Indonesian models. A coherent and long term strategy for management development has emerged from this examination. The strategy emphasizes the broad involvement of managers in the creation of a sustainable management development process and of national forums and organizational mechanisms to promote, guide and evaluate this process. The proposed strategy is not a blueprint plan. Rather, it involves a learning process that would generate consensus and commitment for change and would further elaborate, experiment, monitor and redesign the various elements of the strategy in light of experience. The strategy aims at institutionalizing government policy intentions to achieve near self-reliance in management education and training; improve managerial processes, systems, and practices; and create an environment that promotes high managerial performance.

The strategy has four basic elements. First, various national forums, ministerial task forces and promotional activities are proposed to formulate national policies for management development, to initiate and manage organizational development activities in key agencies and sectors, and to promote self-help management development and public recognition of outstanding managers. A national advisory Forum for administrative development is proposed to advise the Ministry of Administrative Reform on policies for management development of the civil service and to provide a forum for promoting and evaluating administrative improvements. Similarly, it is recommended that the Government promote and support some of the emerging associations and professional forums for promoting enterprise management development, such as PERMANIN to provide a forum for dialogue between the public and private sectors and to support various promotional activities for enterprise management development.

The second element is the development of management and public administration education and training institutions. University undergraduate programs may stress practical learning in the main functional management areas. Increasing emphasis should be given to Master's level programs in enterprise and public management at faculties that are independent of the economics and social sciences. Management and public administration perspectives could be infused into the curricula of other professional schools, particularly at the engineering and agricultural institutes. Cooperative programs and resource sharing need to be promoted among faculties of management and public administration within and among universities. A selective approach to assisting public and private universities is suggested, with increasing focus on some promising private management institutes. Within the central government, a high priority is given to LAN's organizational development to play a leading role in upgrading public administration training throughout the departments, to limit its direct training to the highest administrative levels, and to build its capabilities in advising on adminis-

trative reforms, consultancy services and research. Phased assistance to upgrade the departmental training centers should be closely linked to the design of programs, systems and processes for organizational and management development, and to the involvement of the senior administrators of these departments in managing these broad changes.

For the local governments, the focus should be on strengthening the Ministry of Home Affairs' training center as the leading institution to support planning and evaluation of regional training needs and to develop the necessary software and provide the specialized services to the proposed regional training centers. It is proposed that 6 to 7 new autonomous regional training centers be established which would integrate on a regional basis all in-service public administration training at provincial training institutions and would involve the local administration and universities in adapting these programs to the needs of their regions.

For public enterprises, the agriculture training institute may be further developed into a model for management training and services for the agricultural enterprises. The government may assist in the creation of management development systems within all large public enterprises and involve public enterprises in the planning, finance and evaluation of their respective sectoral training centers.

Finally, several of the promising private management education institutions (that have emerged since the beginning of this survey) deserve Government recognition and support. Some of these institutions could be further developed into models of excellence and could be financed to support other management education institutions and universities in the development of case studies, research and consultancy, innovative teaching methods, and other qualitative improvements. A gap may still remain in addressing long-term national priorities in management which may require a joint government-private sector effort to create, over the medium term, one or more national institutes of management. Specific policy measures should be considered to enhance the role and contribution of private management institutes to improve management development and the managerial environment, such as, government recognition and accreditation of graduate programs of these institutes, exempting them from taxes on imported books, facilitating access to student loans, and allowing for adequate experimentation and autonomy to promote innovation and diversification among these institutes.

The third element of the strategy is a set of national programs to develop: (a) core management faculty teams; (b) local cases, relevant teaching materials, and 'action learning' methods; (c) mechanisms for involving clients in shaping training programs; (d) management consultancy firms and associations; (e) national fund and agenda for management research; and (f) study tours to expose policy makers and business leaders to successful administrative reforms and models of managerial excellence. The government may also support professional and industrial trade associations to sponsor a national management development and productivity movement, perhaps adapting from the successful experience of Japan.

The last element is to improve the managerial environment. Improvements in overall public policies and systems would be critical for sustainable progress in management development and for widespread improvements in the management of scarce national resources, including managers and institutions. Priority areas for which task forces may be established and foreign technical assistance may be used are: civil service policies (compensation); administrative decentralization and local government administrative development; public expenditure planning and financial management systems; management information and evaluation systems; government control systems of public enterprises; and regulatory policies influencing business management development.

To phase implementation, an action program has been identified comprising those measures in the strategy which can get underway immediately either because the issues they address are urgent and lend themselves to near term solution or because they represent prerequisite preparation and learning for other activities. The activities proposed by the study team are summarized in table 1 and are estimated to cover the first two-years of the long-term (ten-year) strategy. Further design and implementation of the long-term program will require careful planning, phasing and monitoring, taking account of the synergy among the four main elements. No single "super agency" would be necessary or feasible to implement this program. Rather, most activities will be led by the senior managers of the line agencies or the management development institutions. Task forces may provide a flexible organizational means to formulate and manage tailor-made organizational development programs within the central agencies and line agencies. Technical assistance teams may be provided by aid agencies to provide analytical support and cross-country experience to the Indonesian task forces. Similarly, inter-ministerial task forces provide a national mechanism that would selectively address priority areas of policy reforms and draw on the capabilities of various national agencies to move from general intentions to the specific design and implementation of reforms.

The underlying theme in the learning process recommended is the involvement of the Indonesian managers themselves. Managerial and Institutional development efforts require long-term commitment and adoption of collaborative and learning approaches which engage clients in self-improvement and permit continuous adaptation in light of experience. This effort, therefore, can only succeed if the senior Indonesian managers take the lead in propelling this process forward. However, aid agencies can play a supportive role in this process. The study reviews previous experience with technical assistance for institutional development in Indonesia and suggests that more attention should be given to adapting institutional development approaches and management tools to take account of the cultural and behavioral aspects and the policy environment. Further assistance may be pursued both through direct assistance (specialized projects) to the proposed management development forums, institutions and faculties, and through systematic support to institutional development in the context of investment projects. Indonesian managers and educators may also familiarize themselves with the wide spectrum of services and various country experiences with management development so they can make informed choices. While the responsibility for follow-up rests with the Indonesian government and business leaders, donor agencies may

facilitate the implementation process through informal coordination among themselves and dialogue with designated government and business forums.

Since the completion of this survey, the Government has taken important measures to improve civil service training and management education, the supervision of public enterprises, and the regulatory environment for the private sector. Among the notable examples are the recent decree governing management methods and supervision of state-owned enterprises, the creation of a national steering committee to promote the mobilization and effective utilization of foreign aid for overseas training, the initiatives of LAN, the creation of a sectoral training center at the Ministry of Industry, World Bank assisted training for administrators of the Ministry of Education, expanded overseas training, improving the salaries of civil servants and integrating some of in-kind payments into the basic salary structure, the establishment of several private management education institutes and the reforms of the Investment Coordination Board (BKPM) and of regulations governing exports and imports. Also, the Government has recently clarified its priorities for foreign assistance in the areas covered by this report (see table 2). It is hoped that further technical cooperation would reinforce these recent initiatives and would be guided by Government priorities and the overall strategy suggested in this report.

Table 1: THE ACTION PLAN

For public administration	For enterprise management
<p>1. <u>Forum to Guide Administrative Development</u></p> <ul style="list-style-type: none">(a) Set up National Advisory Forum on Public Administration Development.(b) Set up interagency task forces for policy studies; and intraagency task forces for organizational development programs.(c) Initiate public campaign to promote managerial excellence.(d) Mobilize public and foreign aid resources.	<p>1. <u>Forum to Promote Enterprise Management Development</u></p> <ul style="list-style-type: none">(a) Assist existing but limited forums to evolve towards providing policy advisory inputs to government on enterprise management development (e.g., PERMANIN).(b) Sponsor a national management development/productivity movement.
<p>2. <u>Assistance for Public Management Development Institutions</u></p> <ul style="list-style-type: none">(a) Upgrade LAN's SESPA and its consultancy and research.(b) Assist selected public administration faculties at state universities.(c) Establish full-time positions and career for trainers; assist training centers at Finance, Home Affairs and Education.(d) Establish one regional training center; assist Home Affairs' role in decentralizing local government training.	<p>2. <u>Assistance for Enterprise Management Development Institutions</u></p> <ul style="list-style-type: none">(a) Consolidate faculties of management at selected state universities.(b) Assist promising private management education institutions, especially outside Jakarta; some may evolve into national institutes of management.(c) Develop management training and consultancy at LPP and few other selected sectoral training centers.(d) Study alternatives to meet management development needs of small enterprises and to develop a national supervisory training program.
<p>3. <u>Support Programs to Facilitate Public Management Development</u></p> <ul style="list-style-type: none">(a) Apply "managerial skill profile analysis" to ministers and central guidance agencies.(b) Initiate a senior executive development program.(c) Fund overseas training for public administrator faculty development.(d) Expand in-country foreign language training programs, particularly in support of overseas training.(e) Fund a national program for developing training materials and teaching methods.	<p>3. <u>Support Programs to Facilitate Enterprise Management Development</u></p> <ul style="list-style-type: none">(a) Fund overseas training for management faculty at public and private universities and sectoral training centers.(b) Recruit and train selected retiring enterprise managers to become trainers.(c) Fund a national program for developing training materials and teaching methods.(d) Support INKINDO to initiate development of local management consultancy firms; consultancy at MOF for public enterprises.(e) Establish national fund and agenda for management research.(f) Initiate an in-country program for developing senior executives.(g) Support a national management development movement and study tours for business leaders.
<p>4. <u>Policies to Improve Administrative Environment</u></p> <ul style="list-style-type: none">(a) Improve civil service policies, starting with compensation and development of managers.(b) Accelerate decentralization measures.(c) Introduce medium-term investment programming, starting with the more advanced ministries and public enterprises.(d) Strengthen the National Group on Automation.	<p>4. <u>Policies to Improve Managerial Environment</u></p> <ul style="list-style-type: none">(a) Improve corporation planning and control systems governing public enterprise management.(b) Improve regulatory policies influencing private business management development.(c) Accredite the graduate programs of private management education institutes, exempt them from taxes on imported books and materials, facilitate access to student loans, and allow for adequate experimentation and autonomy to promote innovation and diversification.

Table 2: PRIORITIES OF GOI FOR MANAGEMENT DEVELOPMENT

No.	Subproject	Objectives
1.	Conduct a program to identify managerial skills needed in departmental and non-departmental agencies.	- should be expanded to cover all managerial Echelons and to develop need assessment capabilities within the central department and non-departmental agencies, as well as local governments.
2.	Conduct senior executive development programs in Indonesia.	- to initiate pilot programs targeted at senior executives in public and business management, using consortia from IIMA, AIM, INSEAD, etc. - LAN to collaborate with other reputed universities to delivery seminars for Echelons I and II. - programs to be conducted in Indonesia to reach a large audience. - can later be institutionalized into executive staff colleges in Indonesia.
3.	Overseas training for management teachers and trainers, central and local government administrators, and senior enterprise managers, including the private sector.	- to accelerate management development by sending teachers/trainers for degree programs, and for top managers to raise awareness about management development in their institutions and enterprises.
4.	Expand in-country foreign language training programs.	- to enable sending participants for overseas training. - to study and establish a new English language center - to strengthen existing language facilities - to study foreign language needs other than English - to study language needs in the provinces.
5.	LAN institutional development <u>Components:</u> a. staff development b. teaching materials c. research & consultancy d. library development e. technical assistance.	- Institutional development should focus on building institutional management capacity, staff development, library and teaching materials, curricula development, and a capacity to service public management training and training of trainers for all ministries. - Introduce Senior executive development programs (seminars) for Echelons I and II.
6.	Creating full time positions for trainers in the central Government departments, and intensive development of major Badan and Pus Diklats of Ministries of Home Affairs, Finance and Education, and perhaps Transport and Agriculture.	- to accelerate measures to develop core staff trainers in central departments by creating fulltime functional positions, recruitment, training of trainers, adequate incentives and career planning. - establishment of organizational development program including manpower planning and research capacity. - curriculum development - support services, including informatin system and library - training of trainers - technical assistance.
7.	Intensive institutional development of the sectoral training centers, covering agricultural enterprises (at LPP), industrial, banking and cooperatives' management training centers.	- training staff development - improve institutional management - materials and curriculum development - incentives to staff for pedagogical development - consulting and research capability development

No. Subproject	Objectives
8. Assist promising private management institutes; assist new private institutes outside Jakarta	<ul style="list-style-type: none">- assess potential needs of existing promising institutes and identify new ones outside Jakarta.- to send faculty members abroad for degrees- to invite visiting professors to teach with local faculty- to establish the infrastructure and facilities
9. Intensive development of selected management faculties at universities, particularly at the major provincial cities.	<ul style="list-style-type: none">- to strengthen management faculties at selected universities and institutes. This involves staff and program development to make these universities/institutions develop as national centers of excellence and services.- Principal institutional development programs such as teaching materials development, pedagogical research, correspondence courses and new programs.
10. Training of management consultant/trainers for small scale business for state banks and industrial extension programs and taking appropriate policy measures to employ the trainees.	<ul style="list-style-type: none">- to provide outreach programs for small-business management development- to integrate management development considerations into ongoing programs of assistance to small-enterprises.
11. Development of 6 to 7 regional management training centers, perhaps starting with one at Yogyakarta's Selaputda as a pilot, for integrating sectoral administrative training programs and tailoring them to regional needs (integrating both regional and field-based central government staff in such training).	<ul style="list-style-type: none">- establishment of a basic organization and management structure- provision of full-time functional positions for training staff- recruitment of additional staff- staff training and workshops- survey regional needs of local Governments- technical assistance
12. <u>Set of Studies</u>	
a. on small enterprise management development b. on national supervisory training program c. on improving corporate planning and control systems of public enterprises, and their supervising agencies, including the Ministry of Finance.	<ul style="list-style-type: none">- to formulate strategies to reach special target groups- to improve objective setting, accountability and planning for public enterprises- to support equity objectives.

INDONESIA

MANAGEMENT DEVELOPMENT

EXECUTIVE REPORT

1. This study was initiated when the Government of Indonesia requested aid agencies to investigate ways to accelerate the full development of its managerial manpower. As the study progressed, management issues began to be conceived in a wider context including both quantitative and qualitative deficiencies in managerial resources and practices, and the frequent incompatibility between these and the challenges facing leaders, entrepreneurs and organizations. Management development thus extends beyond formal education and training and includes on-going processes whereby managers and institutions are continually reassessing their performance and the factors - e.g., attitudes, policies, structures - which influence that performance. Management development thus includes other key factors which influence learning processes within organizations: senior management style and organizational culture, career planning and management succession systems, task assignment and job rotation, systematic delegation and on-the-job coaching, incentives for performance, information sharing, support to risk taking and experimentation, and many other less tangible but important ingredients for managerial and organizational development. It also includes the overall policy environment for management and the macromanagement systems and central guidance agencies which govern the formulation and implementation of policy reforms, mobilization and allocation of financial and human resources, distribution of responsibility among levels of government, and interactions between government and business.

2. A primary objective of this report is to help Indonesian managers clarify their own perception of management issues and thus strengthen their commitment and capability to devise policies and institutions to promote management development. The report describes the nature, causes and magnitude of the "management problem," then suggests measures which respond to Indonesia's special needs. The report proposes a long term change process which involves increasing awareness of and commitment to management development; improving the way managers are developed within their own organizations; transforming and strengthening the role of educational institutions to develop appropriate managerial skills and systems; and inducing reforms in the macromanagement systems and policies that influence managerial practices and culture. This process would be guided by national leadership and senior managers; foreign aid can only play a facilitating role. It would rely on learning and experimentation rather than blueprint plans.

3. While much of the report focuses on weaknesses of Indonesia's present managerial environment, this should not detract from the country's substantial efforts and significant achievements since independence. Overall, sound macroeconomic policies have been pursued by the New Order Government, and, more recently, during a difficult period of resource scarcity, decisive policy reforms were taken. Underlying this success is a continuity of the

Government's basic development philosophy, careful management of external debt and inflation, and political commitment to development and to initiate policy reforms to deal with major external shocks. In addition, there has been significant progress, under sometimes difficult circumstances, in bringing about national stability and unity among a large number of islands and ethnic groups marked by impressive diversity. Indonesia inherited virtually no administrative or educational infrastructure from its colonial experience and has had to build up and staff modern institutions, almost from scratch. If the report appears, on occasion, unduly critical, this is because it is written with an eye on future challenges, which are expected to be fundamentally different, and perhaps greater than previous ones. Many Indonesian managers expressed candid and deep concern to the study team over how their organizations will cope with these increasing demands. Hence, this report addresses management problems rather than accomplishments, recognizing that Indonesia has demonstrated that national consensus and commitment can be mobilized to overcome even the most challenging development constraints.

4. The study represents a collaborative effort which benefitted greatly from the involvement and concern of many Indonesian policy makers, educators, business leaders, foreign aid agencies, and technical assistance personnel. In order to test various hypotheses on the widest possible audience, the study team interviewed a significant number of public and private sector executives, collectively representing a broad range of experience and perspective. Based on a shared understanding of the problem, the report proposes the broad outlines of a long-term strategy for management development and a process for carrying out further the design and implementation of this strategy. Further elaboration, phasing, experimentation, monitoring and revision of various elements of the proposed strategy should be part of this learning process. An action program is suggested to initiate this process; the program includes various national mechanisms and task forces to design the details of the program and to ensure continuity and flexibility of the process.

5. The main conclusions of the study are: (1) certain historical and cultural factors and dominant management practices tend to inhibit the development of effective entrepreneurs, managers and institutions; (2) there is a significant imbalance between the economy's need for qualified managers and its present capacity to develop such staff through management education and training institutions and through organizationally-based management development systems; (3) local management consultancy and research capabilities are at an early stage of development; and (4) there is an urgent need to reorient and strengthen the core agencies and processes governing macromanagement (including civil service policies, public expenditure planning and budgeting, decentralization, and regulatory policies) to tap the full potential of Indonesia's human (and other) resources.

6. To address these problems, the study team suggests the following four basic elements of a long-term strategy: (a) various national forums and mechanisms to strengthen overall capacity for administrative development and to promote policies and programs for productivity improvement and management development; (b) qualitative and quantitative improvements in a national network of management education, training and development institutions; (c) national programs to develop core management faculty teams, address

national priorities in management research, strengthen local management consultancy firms, expose policy makers and business leaders to improved managerial practices, and promote a national movement (self-help activities) for management development; and (d) several task forces to address key policy areas which have strong impact on managerial performance and development in the public and private sectors.

Understanding the Management Problem

7. Management (and institutional) development seems to be the least understood dimension of development policies and strategies and perhaps, the most difficult to address. Several factors appear to have constrained the development of Indonesia's managerial capacity. Senior managers have been preoccupied with the immediate problems of controlling fast growing development programs and institutions. With relatively few skilled administrators and staff, senior managers had to impose standard and rigid procedures and to limit training of subordinates to those narrow skills necessary to operate existing systems. They had little time and relatively underdeveloped systems for effective delegation and nurturing of their juniors. The magnitude of the management problem and its pervasive and long-term nature have rendered isolated and short-term interventions ineffective. There are no broadly representative forums which could draw upon the perspectives of concerned managers and policy makers to generate national consensus, formulate policies and mobilize resources for improving management in the public and private sectors. The ability to research management issues, including survey and analysis of relevant data, is limited. (See Main Report, Chapter 1, Section C).

8. Foreign aid agencies usually view management issues in terms of the constraints which affect development projects. Problems observed in preparation, implementation, and operation of foreign-aided projects are often attributed to weak project planning, rigid budgeting, a bias for new investments, complex implementation systems, excessive centralization and weak coordination, inadequate civil service compensation, and poor monitoring and evaluation. Utilization of new facilities is often quite low and many projects do not realize their full potential. Technical assistance activities face even more fundamental constraints. Most of these problems can be traced to inadequate managerial skills, systems and practices. (See Chapter 1, Section D).

9. The costs of managerial inefficiency, in both the public and private sectors, can be substantial. In the public sector, managerial weaknesses are prime contributors to implementation delays, poor maintenance, low productivity, and poor utilization of human resources and capital facilities. The consequences of managerial ineffectiveness in public service institutions are more difficult to perceive; they are reflected in underdeveloped institutions, inappropriate selection of goals and strategies, and inability to reach the most needy with the right mix of goods and services. Similarly, in the private sector, the costs of ineffective management may be more difficult to measure, since their greatest impact probably extends beyond pure efficiency considerations, to the inability to exploit potential commercial opportunities. In an increasingly competitive environment, these costs may increase

and threaten the very survival of entire industries. To compete successfully in international markets, enterprises will increasingly demand managers able to create business opportunities, provide new products and services, and penetrate new markets, all while maintaining a competitive edge.

10. The basic dimensions of the management problem, as viewed by Indonesian managers and educators, and this study, are: (1) the dominant external or macro constraints to managerial development and performance; (2) the scarcity of entrepreneurial and leadership skills in an economy organized around small enterprises and rural communities; (3) the need to mobilize and prepare indigenous managers to lead increasingly complex institutions, accelerate technology transfer, and adjust administrative systems to social and economic changes; (4) the diversity of economic conditions, local institutions, business cultures and managerial styles among regions and ethnic groups, coupled with a national concern for unity, equity and harmony; (5) the generally inadequate management education and training programs, and the lack of on-the-job learning systems; and (6) the impracticality of wholesale transfer of foreign management improvement models to Indonesia and the consequent need to develop managerial technology and practices relevant to Indonesia's cultures, institutions and resources. (See Chapter 1, Section F).

The Managerial Environment

11. Many cultural and historical factors have influenced Indonesia's management practices and performance, some negatively, and some positively. Among the more important cultural factors have been the paternalistic pattern of most relationships and the strong desire to avoid open conflict. Further development of management practices should reduce the negative aspects while incorporating the strengths of such cultural factors. For example, paternalism provides a sense of security for subordinates. It may be used to induce superiors to take greater responsibility for developing their subordinates. The "father figure" may provide a powerful "role model" in promoting new norms. Its authoritarian and centralizing aspects may be reduced by promoting participation. The pressure of competition may also induce senior managers to invite ideas from the junior and younger but better educated managers. Conflict avoidance and tolerance for ambiguity may discourage upward communication and delay problem solving, but creates a room for compromise. The need to maintain face and group loyalties may discourage risk taking, initiative and change, but could be harnessed to improve group performance and team work. Decisions reached by peer consensus may be time consuming, but once agreement is reached, smooth implementation is more likely. Management research and process consultancy could seek further understanding of these cultural factors to adapt management tools to indigenous practices and build on cultural strengths. (See Chapter 2, Section A.)

12. Historically, Indonesians were restrained from positions of economic or administrative power during the colonial period. A deliberate effort was made to maintain the status quo in the social system. Predetermined educational routes were devised for various ethnic and social groups; this system foreclosed higher education opportunities to all natives but the aristocratic class. There is widespread feeling that colonial domination actually fostered passive attitudes and dampened the emergence of an entrepreneurial spirit.

Subsequently, after independence, the government felt it necessary to effect a command style of management, in its efforts to build national unity, ensure stability and accelerate development. (See Chapter 2, Section B).

13. Present management practices exert an environmental force of their own and are not subjected to examination and systematic adaptation. Although there is a wide variation in managerial practices across Indonesian organizations, the management function is usually conceived in terms of regulation and control. This has contributed to most organizations and enterprises evidencing a marked concentration of authority. As a result, top managers are frequently overburdened with routine tasks which causes them to neglect institutional and staff development. Middle and lower level managerial jobs, on the other hand, carry little real responsibility and offer few learning opportunities in preparation for possible promotion to more senior positions. Often coordination relies almost exclusively on direct supervision by top managers (in small-scale and young organizations) or on superimposing standard procedures and uniform solutions (in large bureaucracies). Decision making practices are highly personalized and usually focus more on inputs than outputs and objectives. Planning, budgeting and monitoring practices are pro forma and mechanistic, and are seldom viewed as management tools for substantive decision making, performance improvement, and learning. Personnel practices encourage conformity and risk aversion. Finally, some managerial practices have created inward looking organizations, with limited capacity to respond to and learn from their clientele, other institutions, or the environment. (See Chapter 2, Sections C and D).

14. Most of these practices represent a natural evolution and rational adaptation to the above historical conditions. Some of their negative aspects are mitigated by the strength of village-level institutions and self-help traditions, the flexibility provided by informal groupings and the extensive use of task forces in large organizations, and the enriching influence of ethnic diversity on managerial styles. However, accelerated evolution of these practices is necessary to respond to the emerging environment and future challenges. Emerging managerial practices should emphasize the development of institutional learning capacities to anticipate, adapt to, and create the future. If significant and sustainable improvements in managerial practices are to be accomplished, Indonesian managers themselves will have to be both the primary motivators and overseers of this change. (See Chapter 2, Section F).

15. In public sector management, two key problem areas are the planning, budgeting and financial control systems, and civil service policies. The public sector management environment has been shaped by budgeting and control systems which are too centralized, short-term, and rigid to permit strategic planning and timely adaptation. Project funding is fragmented and complex, placing a heavy burden on financial management, coordination and monitoring systems. Certain civil service policies, particularly the weak link between performance and incentives, are not designed to encourage high levels of managerial and professional competence. Inadequate full-time job commitment, largely the result of a fragmented and piece work compensation system, lack of functional orientation in civil service career streams, and limited in-service training opportunities and other management development processes all have a

detrimental impact on the performance of public managers and institutions. (See Chapter 2, Section E.)

16. These environmental factors which hinder managerial excellence are by no means insuperable. This is aptly demonstrated by several successful development programs, most notably Family Planning and INPRES (which provides decentralized funding for simple infrastructural projects). These are both commendable examples of ways to realize effective management by building on cultural strengths, phasing coverage and activities over time to suit evolving administrative capabilities, creating decentralized and flexible managerial structures, and designing learning opportunities within implementation and delivery systems. Systematic examination of successful Indonesian programs and effective institutions and managerial styles could yield important insights for the development and dissemination of effective "home grown" managerial systems and practices. (See Chapter 2, Section G).

17. Future Challenges. Future economic transformation, industrialization, export promotion, technological change and human resource development are expected to increase the demand for competent management. Growing international competition, particularly from several neighboring countries, and the accelerated rate of technological change will put a premium on the ability to identify and create new markets, and to shift resources quickly to these new opportunities. Major changes in the skills and attitudes of the work force, including an increase in the proportion of managers and technical specialists, can be expected. The way people are organized and motivated is becoming a critical determinant of productivity. Managerial tasks themselves will be substantially transformed under the impact of more integrated national and international markets and the on-going revolution in information and communication technology. Administrators of public service institutions will manage increasingly complex delivery systems and capital intensive facilities over wider and less developed regions and more diverse beneficiaries. This will require a more responsive, motivated, entrepreneurial, and professional bureaucracy. However, at present, managers are not being sufficiently prepared to meet these future challenges; pre-service education does not adequately address managerial issues and management development processes within organizations are rather underdeveloped. Moreover, management development institutions and consultancy services are not adequately organized and developed to facilitate administrative reforms or to prepare future managers to lead the adaptation process. (See Chapter 2, Section H).

18. Future challenges of economic and social transformation suggest that management development will be a critical dimension of Indonesia's development strategy. The environment within which national and institutional strategies will be pursued is expected to be increasingly turbulent, complex, diverse, and competitive. As organizational structures must be made to fit strategies and environments, institutional reforms become a basic element of development strategy implementation. These challenges suggest an urgent need to reconceptualize the role of management in development. This role extends beyond operational management to include policy and strategy formulation, the development of human resources within organizations, and the creation of cultures, incentives and systems that are conducive to organization learning and high performance. Fulfilling this role will require changes in managerial

structures, systems, attitudes, skills and practices, and in the public policies and institutions that determine their development and performance. Only through such mutually reinforcing interventions will sustainable changes be brought about.

19. The following sections highlight specific performance problems in the central and local agencies and public and private enterprises, and the present demand and supply patterns of managerial skills at these organizations. It is recognized that in-service training is only one element in improving managerial performance and institutional development and must be complemented by changes in organizational climate, structures, systems and incentives. However, the present scarcity in managerial skills, particularly in strategic management and organizational development, puts severe limitations on introducing improved managerial technology and on implementing macro-institutional and policy reforms. Investment in developing indigenous managerial resources (including management consultancy skills) is therefore intertwined with progress in formulating and implementing administrative reforms and organizational development programs. In this context, in-house training centers and educational institutions would need to be transformed into management learning systems which would develop change agents, institutional leaders, systems developers and policy reformers, and would also assist organizations to develop their own learning systems.

Central Government Management

20. The central government plays a dominant role in development and investment activities in Indonesia. It formulates public policy, manages and implements the development budget, and monitors the operations of local government and public sector enterprises. The staffing of the central government is marked by a very small managerial cadre supervising a very large bureaucracy. In particular, middle management is thinly staffed and its level of competence is often low, while top management is frequently overburdened with operational details which could be delegated. Consequently many top management tasks, especially strategic planning for institutional and staff development, are commonly neglected.

21. Broadly stated, priority needs include: (a) new orientations, skills and support systems for policy analysis and strategic planning at the central guidance agencies;^{1/} (b) management development systems (including training) for professional specialists in the technical ministries; and (c) field-oriented management skills and systems development in the social-sector ministries, particularly for effective delivery of social services and for facilitating the development of the capacity of the communities to be served. (See Chapter 3, Section A).

^{1/} The National Planning Agency (BAPPENAS), the Ministries of Finance and Administrative Reform, the National Institute of Public Administration (LAN), the National Civil Service Agency (BAKN) and the Coordinating Ministry for Economy (EKUIN).

22. The central guidance agencies strongly shape the regulatory environment, incentives, and management systems of all other public and private institutions. Their capacity for administrative reform, strategic management, policy analysis and overall guidance and support are thus critical to overall management performance in public and private institutions. Improvements in their management and policy support systems, and in the skills and functional streams of their staff are necessary to achieve their full potential. There is a pressing need to improve their research and consultancy capacity to assist public managers in their organizational development efforts.

23. In-service public administration training (at LAN and departmental training centers) provides instruction to some 8,000 participants annually, out of an estimated 300,000 managers and supervisors in the public service. This averages to about three days of training in a five year cycle or less than one chance to take a medium-term management development course during a 30-year service. However, as some senior administrators undergo courses up to 900 hours, many others have no exposure to basic management concepts throughout their careers. For a fairly young civil service, only 3% of whom have completed a university degree, management training opportunities seem inadequate.

24. The quality and relevance of most training programs leave significant room for improvement. LAN has a broad mandate for supervising overall government training activities, including management development. LAN has succeeded in focussing the attention of government departments and agencies on management concerns, including the need for more training. However, LAN's training programs, structured in four tiers corresponding to hierarchical, rather than functional lines, do not always address the needs of a particular department or sector. There is considerable duplication from one level to another. Curricula stress formal descriptive information relevant to passing promotion examinations. There is still a considerable imbalance in the mix of theoretical and practical content of training programs, primarily due to the limitations of qualified trainers. Upgrading and consolidation of LAN's activities seems necessary in order to lead reforms and innovation in public administration training and to develop research, consulting, and policy analysis capabilities for administrative reform. With a new leadership and renewed commitment to organizational development, LAN seems ready for substantial improvements. Since this survey has been completed, LAN has undertaken various initiatives, including the design of a training cycle for the senior civil servants that emphasizes experiential learning, the introduction of some policy-oriented courses, and the involvement of other departmental training institutions in LAN's formulation of training priorities and policies. LAN also intends to collaborate with the Department of Education in the development of public administration programs at the state universities. (See Chapter 3, Section B).

25. The departmental training centers (PUSDIKLATs) like LAN, tend to program their annual training cycle in relative isolation from their clients and their organizational development needs. Management training in particular is relatively neglected. As a result, their courses are usually based on theoretical training requirements mandated by LAN, and a continuation of past

offerings. Their planning and budgeting systems for training are not linked to any long term organizational development or sector strategy. Civil service policies, especially regarding compensation and career development, prevent their recruiting full-time qualified and motivated trainers or experienced managers. Effective training methods, relevant teaching materials and case studies are lacking. Since managers' time (opportunity cost) is about 20 times more costly than trainers' time, investment in more competent trainers and more effective programs would seem to be a high priority. (See Chapter 3, Section C).

Local Government Management

26. Provincial and local governments have been major, though regulated, actors in achieving national integration and economic development. Government policy is to promote decentralization of development activities. However, the central bureaucracy has retained fairly tight control over regional government units. It now appears that the size of the government's development program has outstripped the capacity of central ministries to prescribe, design and manage individual projects. In addition, the managerial and professional competence of local governments has improved significantly in recent years and they therefore appear ready to accept more responsibility and greater autonomy. While better management training could help to improve the effectiveness, self-confidence and status of local government staff, more fundamental is the need to devolve authority to provincial and local administrations. To facilitate such decentralization a number of management problems should be addressed: the fragmentation of funding channels for local development activities among a multitude of central government agencies; the limited resources available to local governments to maintain and operate local facilities; the complexity of the procedures imposed upon local administrators; the distortions in compensation, and limited prospects for recognition and professional development of provincial staff; and the personalized style of regional leadership. (see Chapter 4, Sections A & B).

27. While the bulk of provincial staff time is presently devoted to routine technical tasks, there is nevertheless a clear need for improved management skills in planning, budgeting, supervising, and coordinating. The study team identified the following priorities for management training for provincial staff: lateral communications; inter-and intra-agency cooperation in the pursuit of development and institutional objectives; simple management techniques and data analysis; planning and budgeting, especially for maintenance; developmental diagnosis and economic rationality in project selection; entrepreneurial and advocacy skills; and involvement of local communities and facilitation of the development of their capacity for choice and action. (See Chapter 4, Section B).

28. In quantitative terms, regional management training for the small select cadre-stream appears to be roughly sufficient.^{2/} But for the large number of non-cadre-managers who are served by other ministerial programs, training opportunities are insufficient. The quality of regional training programs suffers from several factors. Course content is designed and managed by central authorities (mainly Ministry of Home Affairs (MHA)) and does not generally reflect the substantial differences in management needs among regions. Subject matter is fragmented among many courses with few opportunities to examine a broad issue in any depth. The status and pay of teachers at the local level are particularly low so that qualified instructors and experienced managers (to serve as instructors) are difficult to recruit. In addition, MHA's training centers and the Institute of Government Science (IIP) do not have the capacity to lead, support and upgrade provincial management training institutions. Meanwhile, provincial governments and local universities are not sufficiently involved in developing local administrative resources. (See Chapter 4, Section C).

Public Enterprise Management

29. Many of the management problems and constraints of the bureaucracy spill over to the public enterprises. The measures and incentives for managerial performance, and hence for management training and development, are much weaker in public than in private enterprise. A recent sector study of public enterprises by the Ministry of Finance reports that overall profitability has declined from 4% in 1979 to 2.9% in 1983. To some extent this generally poor performance reflects the imposition of social/political objectives on these firms' operations. However, equally important are the relatively deficient management systems, policies, and skills which characterize most public enterprises. There appear to be four broad areas of particular concern to the management and operation of public enterprises: (1) enterprise managers are distracted from formulating corporate objectives and long term plans by their necessary adherence to detailed, short-term, and quantitative controls imposed by supervising ministries; (2) monitoring, information, and accounting systems are weak, particularly in those areas necessary for setting and measuring performance; (3) appropriate means for developing and rewarding managers are lacking; and (4) the role of public enterprises in the economy is not subjected to continuous and critical review. While sharing many of the private sector's internal management problems (see below), public enterprises must operate within the context of civil service policies, and hence have less latitude to offer adequate incentives and training opportunities to reward and develop their executives, than do their private sector counterparts. (See Chapter 5, Sections A and B.)

30. In-service, short-term training for public enterprise managers (at the sectoral training centers) accommodates about 4,000 participants annually, out of an estimated stock of 29,000 managers and 67,000 supervisors. Almost

^{2/} Through the lower level government academy (APDN), in each province followed by the higher level institute of government science (IIP) in Jakarta.

75% of senior managers are scheduled to retire in the next five years, which will put a heavy strain on the demand for training. Planned on-the-job training and enterprise-based management development programs are virtually unknown. Very little attention has been given to supervisory level training, although this represents the major source of potential managers. University management programs are too theoretical, general and short-term to meet various sectoral and enterprise needs. With few exceptions, in-house training focuses only on technical fields, with virtually no practical management content. With the exception of the Agricultural Training Institute (LPP), the sectoral training centers rely almost exclusively on part-time trainers, whose business experience and incentives for providing quality training are very limited. (See Chapter 5, Section C & D.)

Private Enterprise Management

31. The Indonesian Government now places great emphasis on stimulating indigenous business and entrepreneurship to share the challenges of development with the Government and to promote employment and exports. With the relatively poor prospects for future oil revenues, industrialization and economic growth will depend increasingly on the private sector's taking a larger and more dynamic role in the economy than in the past. However, the extent to which this occurs may depend on the confidence with which business executives view their economic environment and on their own entrepreneurial and managerial skills. Business leaders and managers face a complex set of environmental constraints, including: (1) pervasive controls (e.g. import and export licenses, investment permits, etc.) and an uncertain regulatory environment both of which tend to restrict competition and distort markets and shorten the planning horizon; (2) the government apparatus which administers these regulations is too centralized and cumbersome, with individual bureaucrats possessing a great deal of personal discretion which opens the door to unfair practices; (3) bureaucratic inertia and underdeveloped public support services, especially banking; (4) weak private sector organizations for promoting management development and for providing policy input and feedback to the government; and (5) historical isolation of the bureaucracy from the private sector. (See Chapter 6, Sections A & B.)

32. Medium and large scale enterprises suffer from a number of performance problems related to weak management: (1) poor organization and use of labor and production facilities; (2) lack of quality control; (3) poor procurement systems and inventory handling, and the absence of adequate subcontracting with small firms; (4) weak financial planning and management; (5) poor understanding of domestic and foreign markets; (6) low status and skill of personnel management; and (7) limited capacity to absorb technological improvements. Small enterprises and cooperatives share similar problems; their need for improved, yet simple, cost accounting and marketing techniques is particularly acute. (See Chapter 6, Section C.)

33. Historically, middle level management positions in the enterprise sector have generally been filled by vocational/technical secondary school graduates, with 10 or more years' experience. It has been possible for elementary school graduates to move into lower management, but this assumed some 20 years' experience and such personnel seldom moved beyond this level.

Recently, the demand pattern has shifted towards higher levels of education, particularly university-level graduates of management and, to a lesser extent, technical education. At present, enterprises in the modern sector face their greatest shortages in middle and senior management positions. Future demand for trained managers is likely to be greatest in the manufacturing, construction, transport, and agricultural sectors.

34. In-service management training for large and medium scale enterprises (by universities, private institutes, and in-house programs) accommodates about 12,000 annually, out of an estimated managerial stock of 160,000, or about 7.5% and less than 4% if supervisory personnel are included. Management training opportunities for small businesses are negligible, in contrast to the present target group (500,000). Only about 5% of the cooperatives' local managers (21,000), unit heads (80,000) and directors (130,000) receive some sort of training annually. (See Chapter 6, Section D).

35. Private educational institutes constitute the principal source of management training for medium and large enterprises. With the notable exception of the Indonesian Institute for Management Education, LPPM, their training is of limited quality. Except for a few joint ventures and multi-nationals, enterprises themselves provide very limited enterprise-based management development programs. Very few enterprises can afford to train promising managers abroad. The very short-term, technique-oriented and expensive seminars conducted by foreign consulting firms in Indonesia tend to be ad hoc, and not always relevant to the specific needs of enterprises. Such programs have very narrow and temporary impact, particularly in the absence of management development systems within enterprises. Programs provided by the Ministries of Industry and Trade for small enterprises, and by the Ministry of Cooperatives for their managers suffer from the bureaucratic culture of their training centers and poor quality and motivation of their trainers. Management consultancy firms are in their infancy, but, with appropriate national policies for their professional development, they could make a valuable contribution to improving managerial practices (see Chapter 6, Section E).

Formal Education for Management

36. While most management development processes should occur within the employing organizations, formal educational institutions are expected to provide central support to these processes and to prepare the future generation of managers, leaders and consultants.

37. Quality improvements in formal education for management are constrained by: (1) the weak link between educational planning and employers' needs; (2) the relatively centralized management systems of educational institutions; (3) low salaries and weak incentives for teaching and research; (4) the lack of managerial experience and continuity among educational administrators; (5) the fragmentation of university resources and weak coordination among interdependent faculties; and (6) underdeveloped management information systems for monitoring and evaluating the effectiveness of policies and programs. While perhaps common to all disciplines, these constraints have a particularly negative impact on management and public administration education since this type of education needs to be adapted to the Indonesian environment

and linked to the real problems facing practicing managers to be effective. It also requires multi-disciplinary approaches, experimentation, and highly entrepreneurial faculty and administration. (see Chapter 7, Section A).

38. While the gap between demand and supply is difficult to quantify, there are many indications to suggest that the effective demand for business management education far exceeds the combined supply capacity of public and private institutions. Applications to good economics faculties (most of which end up in business programs) far exceed admission levels. Management problems are quite pervasive, while the percentage of managers, even in large enterprises, with any management education is very low compared to neighboring countries.

39. In qualitative terms, management education is substandard in several respects. Public universities suffer from low (7%) productivity (the ratio of annual graduates to total enrollment); on average, it takes 7 to 8 years to complete a 4 to 5-year undergraduate degree. With few exceptions, most programs are characterized by low quality and limited relevance to practical situations. Teaching methods are mainly limited to the classroom, lectures, and theory. A particular problem arises due to universities' combining management and accounting with economics under one faculty. Creating distinct management and accounting faculties (separate from economics) at major public universities would facilitate a more dynamic and practical approach to management education. In the present context, business management curricula are heavily technique oriented and dominated by economics courses; behavioral sciences are virtually ignored. Teaching materials and case studies which have been adapted to Indonesian conditions are rare. Existing management education is particularly unsuited to the problems of small businesses. With abundant opportunities for routine consultancy and outside lecturing, management educators often neglect their teaching duties and faculty development. The universities seek no employer/user participation in developing business programs or designing individual curricula; this might otherwise be an extremely useful input to ensure the relevance of university education to real world situations. (See Chapter 7, Section B).

40. With few notable exceptions, the productivity (1%) and quality of business programs at the private universities and institutes are lower than public universities. The major constraint faced by these institutions is the shortage of finance for faculty and facility development, and thus the lack of an adequate number of students and faculty to allow economies of scale in providing quality education. However, since private institutes are not constrained by civil service policies or the bureaucracy of state universities, they have greater potential for innovating and responding to local needs. Mobilizing public and private finances to assist private institutions on a selective basis could help to expand and improve the quality of their business programs. An outstanding exception to the general rule of poor quality characterizing most private institutions is LPPM which might be used as a model for developing similar institutions. Several new initiatives, namely Prasetija Mulya Management Institute and the Indonesian Foundation for Management development, show potential for providing quality graduate education in business management. (See Chapter 7, Section B).

41. There is a growing demand for public administration education, reflecting the growth in number and complexity of government institutions and development programs. State and private universities offer public administration programs. Unfortunately their productivity (5% in state and 1% in private institutions) is low. In addition to sharing the same quality and relevance problems of management education at public universities, most public administration programs are marked by a narrowly focussed legal and traditional orientation, limited access to information for research on public sector performance, and poor links with local administration. (See Chapter 7, Section C).

A STRATEGY FOR MANAGEMENT DEVELOPMENT

42. The study team proposes for government consideration the broad elements for a strategy to improve national capacity for management development in Indonesia. This strategy aims at achieving near self-reliance in management education and training, reforming the administrative structure and significantly improving managerial practices and systems within the next 10 years. This strategy emphasizes the broad involvement of managers in the change process and the creation of national and organizational mechanisms to guide and evaluate progress. The four basic elements of the proposed strategy are:

- (a) forums to guide and promote management development;
- (b) assistance for management development institutions;
- (c) support programs to facilitate management development; and
- (d) policies to improve the managerial environment.

(a) Forums and Processes to Guide and Promote Management Development

43. Proposals to strengthen the national capacity for management development fall under three broad categories: establishment of (i) national forums; (ii) public sector mechanisms for administrative change; and (iii) promotional activities.

44. (i) National Forums. The principal recommendation here is the evolution of National Advisory Forum for Public Administration development. The Forum would be advisory and promotional body, with no authority to regulate or implement programs. The Public Administration Forum might consist of up to 20 senior policymakers, representatives of the central guidance agencies, local government and management educators. It would offer advice to the Ministry of Administrative Reform (or the chairman of a small group of Cabinet members) on policies and plans concerning public administration education and training in all economic sectors, provide a forum for assessing public policies and their impact on public management performance and development, promote relevant research and experimentation in administrative reforms and improved practices, and facilitate and monitor the implementation of the proposed strategy for management development within the civil service.

45. Similarly, the Government may support some of the professional and business associations and other forums for enterprise management development. These forums may be developed and recognized as sources for policy advice on policies and programs to promote management development activities in public and private enterprises. Moreover, they could establish a valuable dialogue between the public and private sectors on the policy environment and its impact on management and enterprise performance. They may be commissioned to conduct research on effective management models and promising technologies and disseminate its findings widely. They might also sponsor national workshops, journals and other outreach programs. Some may evolve and include leaders from public and private enterprises, business leaders, management educators, and perhaps few public policy makers. Aid agencies and foundations may provide technical assistance and grants to some of these promising associations such as PERMANIN. (see Chapter 8, Section B, paras. 8.11-8.16.)

46. (ii) Public Sector Mechanisms for Administrative Change. Technical assistance programs, in association with Ministerial task forces or steering committees, are proposed to plan and implement organizational and managerial development programs within ministries and agencies. The objective of these task forces, aside from formulation of immediate organizational development programs, is to improve the capacity of public agencies to adapt to their changing environments and new development needs. These efforts should be strongly supported by each ministry's senior management. An inter-ministerial task force might be formed to assist local governments to institute their own management development programs. Other inter-ministerial task forces might address other policy and administrative reforms of national relevance, particularly in planning and budgeting, civil service policies, and regulatory policies. These task forces would ensure the participation of line managers and hence the commitment of all affected parties in formulating and implementing organizational development. In addition they could help to transform abstract and general concepts into agency-specific manageable tasks. Technical assistance may be used to support these efforts. (see paras. 8.17-8.20).

47. (iii) Promotion of Management Development Activities. Once government and business leaders, managers and educators reach agreement on broad policies and priorities, government could take a more active role in promoting management education and development. Promotion might include a public campaign to highlight management issues, public recognition of outstanding managers and educators, incentives for training in the public and private sectors, and support for promising management development activities by professional associations. Positive incentives, such as direct subsidies and tax write-offs for training expenditures, might be considered. Measures should be devised to mobilize funding for management education and training, including public and private financial resources and foreign aid (see paras. 8.21-8.22).

(b) Assistance for Management Development Institutions

48. The development of effective management education and training institutions is clearly the foundation of any long-term strategy. Leading educational institutions should be transformed into management development

agencies, with the capacity to provide management research and consultancy service and to induce administrative reforms and environmental improvements.

49. Institutional development activities should give priority to: (i) the development of appropriate curricula, case studies and teaching materials relevant to Indonesia, (ii) selective upgrading of the leading institutions, beginning with intensive development of the most promising which may have subsequent demonstration effects, (iii) creation of conditions conducive to higher quality educational institutions, and (iv) gradual differentiation and specialization of institutions within a national network to respond to diverse development needs (see para. 8.23.)

50. Broad institutional development strategies are recommended to strengthen university programs. Perhaps most important is the establishment of faculties of management, including accounting, and public administration, independent from present faculties of economics, and social/political sciences. Corresponding consortia would be also developed and strengthened. In addition, undergraduate programs should stress practical learning in the main functional management areas, in contrast to their present theoretical orientation. Master's level programs in enterprise and public management should be created, with an emphasis on interdisciplinary and experimental learning. They should select mature students, preferably with work experience which could offer a valuable source of curriculum enrichment. Given that such programs cannot accommodate all the young professionals who aspire to management careers, essential elements of management education should be offered in the graduate curricula of other professional schools. Agricultural and industrial management may be introduced to leading agricultural and engineering schools such as Bogor Agricultural Institute (IPB) and Bandung Technology Institute (ITB).

51. In addition, there is considerable scope for increased cooperation and communication among related university faculties and between educational institutions and potential employers in business and government. Universities should encourage their faculties to undertake short-term consultancies with enterprises and government and should expand their short-term training courses for practicing managers. This could help to ensure the relevance of university programs to actual problems encountered on the job. Within the universities themselves, cooperation might include sharing of scarce resources (such as faculty and teaching materials) among universities, development of inter-related fields (such as accounting), and dissemination of relevant information and experiences by the leading universities to local universities, technical institutes and professional organizations (see paras. 8.25-8.33).

52. Clearly assistance to universities will have to be on a selective basis, especially at the outset of the program. Only the country's best universities already operating promising programs in business management or public administration and capable of showing significant near term improvement should be selected. During the strategy's 10 year time frame, it should be possible to assist about 50% of the public universities and about 10% of the private institutes. Immediately, it would seem feasible to begin with three universities in Java (perhaps two public and one private) and two in the Other Islands (perhaps one in Sumatra, and one in Sulawesi). For universities not

selected for direct assistance, the management and public administration consortia and professional associations could play a useful role in disseminating relevant information on successful adaptation in other universities and new developments from abroad.

53. Systematic in-service training for practicing managers is urgently required. For the central government, LAN and the departmental training bodies are the key training agents. LAN would play a promotional and supportive role to departmental training institutes. Its direct training may be limited to the development of senior managers, and programs for instructors of other departmental training centers. In addition, LAN should take the lead in developing new teaching materials and methods for use by the departmental training programs. Universities should encourage their faculties to undertake short term consultancies with government and should expand their short-term training courses for practicing administrators to ensure the relevance of university programs to actual job situations. LAN's role as the government's "think tank" on administrative issues and its management consultancy capability should be strengthened and focused on areas which could contribute to its training activities and which would address common performance problems of the bureaucracy. The training centers of key ministries should be strengthened with training programs for their instructors, the creation of full-time positions and career ladders for such trainers, improvements in the quality and relevance of teaching materials and pedagogy, and better planning, programming and management of training programs. This process may start with the Ministries of Education, Home Affairs and/or Finance.

54. For local government personnel, the focus should be on strengthening the Ministry of Home Affairs' training center as the central institution to support planning, programming and evaluation of regional training needs. It is also proposed to establish, in association with leading universities, six or seven new autonomous regional training centers which would integrate all in-service management training for provincial government staff. These regional centers would manage all the provincial and (centrally-managed) regional training programs.^{3/} In a phased program, Yogyakarta's SELATPUDA might be first selected to receive immediate intensive development; this might serve as a model for other regional centers (see paras. 8.34-8.42).

55. In-service training opportunities for public and private enterprise managers should be increased. These efforts should include expanding in-house training by large enterprises; the development and re-orientation of sectoral training centers for public enterprises; and the development of effective decentralized outreach programs, and other and experimental approaches for the less organized sectors. The government should encourage and strengthen training in all large public enterprises directly and through its personnel policies. Concerned public enterprises should participate in the planning, finance and evaluation of the sectoral training centers. The relatively suc-

3/ The local government in-service training schools (SELATPUDAs), APDNs, LAN's regional centers, PUSIDIKLATS, and the provincial planning board (BAPPEDA) courses.

cessful agricultural training institute may offer some useful lessons for developing other sectoral training institutions. Public policies and incentives in support of a national movement for management development should be formulated; however these should support the private sector's initiative and not obscure the self-help nature of such a movement (see paras. 8.43-8.47).

56. Given the present shortcomings of the university system, the limited resources of existing private management education institutions, and the need to create models of excellence and national resource centers, it is proposed that as a long term effort the Government would encourage and support some of the most promising private management development activities and/or new jointly-financed public-private institutes to evolve into national institutes of management. This support may help these institutes to lead and assist other institutions in research and experimentation aimed at improving management education and practices. Some immediate policy measures by the Government could enhance the contribution of these institutes to national and business management development: recognition and accreditation of their graduate programs while allowing for experimentation and autonomy to improve quality and diversification, exemption from taxes on imported textbooks, and provision of student loans. These institutes should be encouraged to influence management practices directly through action research and consultancy services. They should combine teaching, research and consultancy and should phase their activities, beginning with enterprise management and then subsequently moving to public sector management issues. They should focus on Master's level programs for practicing managers. Similarly, these institutes should focus initially on the needs of medium and large enterprises; as a critical mass of managers and educators is developed, small business and outreach programs could then be developed. Each institute should be managed with a high degree of autonomy and may seek financial support from a variety of sources including government, public and private enterprises and the sale of its own services (see paras. 8.48-8.54).

(c) Support Programs to Facilitate Management Development

57. Support programs and services are necessary to serve the common needs of the entire national network of management development institutions, beyond those selected for intensive development. They should facilitate the management development process on a national scale and broaden the constituency for change. The main proposals are: (i) large scale faculty development programs and personnel policy improvements to support excellence in teaching and research; (ii) funding and appropriate incentives for developing relevant teaching materials and methods, local case studies, and experimentation with simple teaching material and modules to reach the small entrepreneur and secondary vocational schools, and with experiential training methods such as "action learning" and "Performance Improvement Programs"; (iii) development of various mechanisms to ensure greater involvement of clients in the shaping of training programs; (iv) development of indigenous management consultancy services and assistance to INKINDO, the association for consulting companies; (v) establishing a national fund for promoting management research in areas of national priority and encouraging dissemination and implementation of its findings; (vi) use of study tours abroad to expand the exposure and build the

commitment of top officials, managers, and educators for improved managerial practices; and (vii) support for professional and industrial associations in jointly sponsoring a national management development and productivity movement and a variety of self-help activities and incentives to promote this movement (see paras. 8.55-8.71).

58. The promotion of a national movement for management development which could stimulate self-help and support initiatives at various levels and forums would be an important step. The movement should be linked to national efforts to raise productivity and quality control. Government and the private sector should cooperate in increasing the level of consciousness about management issues among government and enterprise leaders, using various communication and mobilization channels, such as trade and professional associations, mass media, local and national workshops, and non-government organizations. It could also use various symbolic and cultural concepts, such as mutual help to nurture grass roots activities by local businesses and institutions. Japan's management development movement may suggest some lessons for Indonesia. (See Annexes 1 and 2 to Chapter 8 and paras. 8.71-8.72)

(d) Policies to Improve the Managerial Environment

59. Improvements in the managerial environment are necessary for sustainable progress in management development and for widespread improvements in the management of scarce national resources, including managers and institutions. Technical assistance may be provided to inter-departmental work teams to formulate policies and programs in the following priority areas:

- (a) Civil service policies and personnel management, particularly by rationalizing compensation to reward good performance and "full-time" commitment to the job; rotating managers through central and local level assignments, and among departments; developing career streams for trainers and strengthening government personnel offices (see Chapter 8, Section B, paras. 8.75-8.78).
- (b) Administrative decentralization through further deconcentration of development program management to the field units of central ministries (KANWILS), further devolution of selected functions to local government agencies (DINASES, BAPPEDAS); introduction of new INPRES-type functional programs to design, implement, and operate simple projects at the local level; selective decentralization of urban services to the increasingly competent district governments; and systematic review of personnel and financial policies required for successful decentralization (see paras. 8.79-8.81);
- (c) Planning, budgeting and financial management particularly by strengthening long-term project planning and appraisal; introducing medium-term sectoral programming; sharpening the focus on policy analysis and determination of priorities; improved analysis of recurrent expenditures; delegating greater authority for budgeting and financial management to project managers, departments, and regional governments; integrating the funding channels for local government functions, together with streamlined auditing of their

finances; and generally improved accounting methods throughout government (see para. 8.82)

- (d) Management information, monitoring and evaluation systems, so as to improve communication between central and local organizations, and among the central guidance agencies and the technical departments, and to support policy analysis, decentralization, coordination and timely feedback (see paras. 8.83-8.85); and
- (e) Deregulation of public and private enterprises, and institution of promotional policies including a review of measures which restrict private entry into production, including the various licensing requirements, with the intention to abolish all but the most essential; further development of financial institutions; upgrading the capacity of the Ministry of Finance and the supervising departments to introduce and support the development of corporate planning and financial management at major public enterprises; and introducing performance improvement programs and other vehicles to improve accountability, communication and incentives for improved performance in public enterprises (see paras. 8.86-8.90).

AN ACTION PLAN

60. To phase implementation, an action program has been identified comprising those measures or activities already proposed in the overall strategy which can get underway immediately either because the issues they address lend themselves to near term solution or because they represent prerequisite action to other proposed long-term measures. The action program is estimated to cover activities of the first two years of the long-term strategy and to cost about \$100 million (almost equally divided between training and technical assistance). A list of these measures is presented below; they are divided into those concerning the public administration and those concerning public and private enterprise management. (See Table 1 and Volume II, Chapter 8, Section D).

For Public Administration

- (a) Forums to Guide and Promote Administrative Development
 - (i) Set up a National Advisory Forum on Public Administration Development to formulate promotional policies and activities and advise the Ministry of Administrative Reform on civil service management improvements (paras. 8.11-8.13).
 - (ii) Set up inter-agency working teams or task forces for proposed national support programs and policy studies, and intra-agency task forces for organizational improvement programs at the central guidance agencies, selected ministries and local governments (paras. 8.17-8.20).
 - (iii) Initiate a public campaign to promote and reward excellence in managerial performance and management activities (para. 8.21).

- (iv) Mobilize public resources and foreign aid to promote management development in areas of highest national priority (para. 8.22).

(b) Assistance for Public Management Development Institutions

- (i) Assist public administration faculties at a few selected state universities to unify their staff under one faculty, develop curricula and teaching methodology and improve staff incentives, with a view toward subsequent wider replication (paras. 8.25-8.33).
- (ii) Upgrade LAN's senior management (SESPA) program and its consultancy and research capabilities based on an agreed organizational development strategy (paras. 8.37-8.39).
- (iii) Establish full-time positions and career ladders for qualified management trainers at the departmental training centers (PUSDIKLATs); assist selected centers (at Ministries of Finance, Home Affairs and Education) to start an overall management development program and, whenever possible, link this to the overall organizational development program and sector strategy of the ministry (para. 8.40).
- (iv) Establish a pilot regional training center (perhaps at Yogyakarta) that would integrate all local training programs for provincial staff and field-level central staff of a selected region; strengthen the advisory and software development role of Home Affairs's training center to serve the needs of this and future regional centers (paras. 8.41-8.42).

(c) Support Programs to Facilitate Public Management Development

- (i) Organize and fund a national program for public administration faculty development for state universities and departmental training centers, starting in the first year with about 100 teachers and 100 trainers (para. 8.56-8.59).
- (ii) Organize and fund a national program for developing training materials and teaching methods that emphasize "action learning" and the development of local cases; support for a few leading public administration faculties to become national resource centers for this program (paras. 8.60-8.62).
- (iii) Expand in-country foreign language training programs, particularly in support of overseas training.
- (iv) Develop a program to systematically identify managerial skill requirements (managerial skill profile analysis) starting with the highest managerial positions at the central agencies and ministries, in association with LAN (paras. 8.37-8.40).

- (v) Initiate a senior executive development program for Echelon I and upper Echelon II (who are not reached by existing SESPA); this program may be organized by LAN, in collaboration with the Defense Staff College and a reputed foreign public administration school (para. 8.38).

(d) Policies to Improve the Management Environment

- (i) Establish an inter-departmental working team under the leadership of the Minister of Administrative Reform to recommend civil service policy improvements, starting with compensation for key categories of civil servants; proposed reforms may be tested by select ministries and, as appropriate, expanded to other agencies; technical assistance may be needed to explore comparable experiences with reforms in neighboring countries (paras. 8.75-8.78).
- (ii) Establish an inter-departmental working team, perhaps under the leadership of the Ministry of Finance or Home Affairs, to formulate a national program for selective decentralization (paras. 8.79-8.81).
- (iii) Establish a national task force, under the leadership of the Ministry of Finance or BAPPENAS, to examine further simplification in annual budgetary cycle, and to introduce medium-term investment programming at selected ministries and their enterprises (para. 8.82).
- (iv) Strengthen the National Working Group on Automation of the State Apparatus to enable it to formulate policies for modernizing management information technology, starting with the central guidance agencies (paras. 8.38-8.85).

For Enterprise Management

(a) Forums to Guide and Promote Enterprise Management Development

- (i) Assist existing professional and business forums to organize promotional activities and advise the Ministry of Finance (and/or Ministries of Administrative Reform, Education, BAPPENAS) on policies to influence enterprise management development and performance and generally, to promote communication between business and government (paras. 8.14-8.16).
- (ii) Through professional associations, the Chamber of Commerce, and/or special task forces, sponsor a national management development movement and mobilize private and public resources and foreign aid to initiate and support high priority management education and development activities (paras. 8.21-8.22).

(b) Assistance for Enterprise Management Development Institutions

- (i) Consolidate faculties for management at selected state universities, with a view towards integrating all related programs within a university under one faculty and reforming their structures, policies and content (paras. 8.25-8.33).
- (ii) Through a national program, assist the most promising private management education institutions with a view that some of the most promising ones may evolve into full-fledged national institutes of management; assist the development of new private institutes outside Jakarta (paras. 7.28-7.31, 8.32-8.33 and 8.48-8.54).
- (iii) Develop the management program (training, consultancy) at the agricultural public enterprise training center (LPP); study of the management needs of public enterprises in other priority sectors and use the LPP experience to formulate plans for other sectoral training centers (paras. 8.44-8.45).
- (iv) Study alternatives for meeting the entrepreneurial and management development needs of small enterprises, including various measures to improve the effectiveness of existing programs and the involvement of non-government organizations. Also prepare and introduce a national supervisory training program (para. 8.47).

(c) Support Programs to Facilitate Enterprise Management Development

- (i) Organize and fund overseas training for management faculty with a phased coverage of selected state universities, private institutes, and sectoral training centers, starting with about 200 teachers and 100 trainers; develop mechanisms to provide access to foreign-aided overseas training to private enterprises, private management education institutes and other NGOs (paras. 8.56-8.59).
- (ii) Recruit and train suitable public enterprise managers who are about to retire to become trainers at the sectoral training centers (para. 8.58).
- (iii) Organize and fund a national program for developing training materials and teaching methods that are action-oriented and locally adapted (paras. 8.60-8.62).
- (iv) Support the national consulting association (INKINDO) in formulating and initiating a national program to support local management consultancy firms, possibly including training at reputable international consulting firms, and improving public policies for contracting and compensating management consultants; build a management consultancy capability within the Ministry of Finance for public enterprises (paras. 8.64-8.65).

- (v) Establish a national fund for promoting management research, the initial agenda of which might be drawn up by a national conference (paras. 8.66-8.68).
 - (vi) Initiate a national program for developing senior executives in public and private enterprises, at some leading Indonesian management education institutes in collaboration with a reputable international business school; support experimentation with a variety of educational and organizational development methodologies such as "action learning" and "Performance Improvement Programs" (PIP) at few major public enterprises (para. 8.62).
 - (vii) Support the national management development movement through public recognition and other incentives for managerial excellence; support management development activities sponsored by professional associations such as PERMANIN; organize and fund study tours for about 200 senior managers and business leaders from public and private enterprises to observe management systems and practices at some leading foreign corporations with commercial interest in Indonesia (paras. 8.69-8.71).
- (d) Policies to Improve the Managerial Environment
- (i) Examine Government control systems of public enterprises. In particular, measures should be taken to strengthen: the roles of the public enterprise units at the Ministry of Finance and at the supervising ministries (according to decree number 3 of 1983); the setting of corporate objectives and the monitoring and evaluating of corporate performance (multi-year corporate and financial planning systems might be considered in the larger enterprises); and personnel policies, particularly concerning selection, transfer, compensation and development of managers and commissioners. The task force may focus first on few priority sectors, perhaps industrial enterprises, financial institutions and/or agricultural estates (paras. 8.68-8.90).
 - (ii) Review the regulatory policies governing private and public enterprises. Priority areas for reform might be policies and procedures which hinders exports, discourage private investment, and inhibit competition in domestic and export markets. The task force may start with several national conferences involving policy makers and private business leaders to identify those policies with major long-term impact and options for reforms (paras. 8.87-8.89).
 - (iii) Accredite the graduate programs of private management education institutes, exempt them from taxes on imported books and teaching materials, facilitate access to student loans, and allow for adequate experimentation and autonomy to promote innovation and diversification.

Managing the Implementation Process

61. The total set of interventions proposed is wide ranging and complex, and calls for vital inputs from a variety of sources. Therefore, managing the further design and implementation of the long-term program will require careful planning and phasing, taking account of the interrelationships among the four main elements. Early actions should lay the foundation for longer term measures by building widespread commitment, establishing forums for dialogue, mobilizing resources, and accumulating relevant experience through pilot efforts. These early interventions should secure the climate for sustainable change and generate a broad concensus for the more difficult subsequent reforms. As implementation proceeds and innovations are tested, it will be possible to involve a larger number of institutions and reach out to the less developed regions and less organized sectors. Implementation progress should be regularly reviewed and policies and programs adapted and reshaped as deemed appropriate. The following are some broad guidelines for organizing the implementation of the proposed strategy (see Chapter 8, Section C, para. 8.91).

- (a) Administrative coordination of all the relevant agencies by a single "super agency" is neither necessary nor feasible. Rather, coordination should be achieved through joint planning of policies and actions, and monitoring of progress. The early establishment of a National Advisory Forum on public administration development and the quality and style of its leadership will determine its effectiveness. Similarly, professional and business forums should participate in shaping those aspects of the strategy concerning enterprise management. Given the large number of institutions involved here, strong commitment and incentives, coordination in the use of scarce resources, and frequent communication among all concerned organizations will be important. "Working teams" or "task forces" may be formed to provide a flexible organizational means to address organizational development programs at the central agencies and line ministries while inter-ministerial task forces would address the external environment.
- (b) Adequate local collaboration and decentralization will be imperative. Education and training institutions in the public and private sectors should seek common solutions to common problems whenever possible and economize on the use of scarce resources through mutual collaboration. Administrative and financial support for institutional cooperation should be deliberately created to ensure the viability of the new forums and consortia. Professional associations should be encouraged to participate in the national forums. Decentralization will be particularly important in organizing training activities for the less organized sectors such as small business, trade and cooperatives.
- (c) The management of the proposed support programs, such as overseas training, will require considerable administrative coordination, responsibility for which should be pinpointed very early in the

action program. The recently established "national steering committee on utilization of foreign aid for overseas training" could provide the necessary mechanism, provided it is adequately staffed and strengthened and it is used primarily for promotional and catalytic roles.

- (d) All new or emerging institutions or programs, to be developed as part of the strategy will need special attention in their formative period to demonstrate success, to evaluate experience and to ensure timely adaptation and replication.
- (e) A quarterly review of progress may be necessary during implementation of the Action Plan. As long-term actions are initiated, possibly at the end of the first two years, the review process should thoroughly examine the achievements, failures, and gaps of all ongoing efforts. In subsequent years, activities may be divided into those which need quarterly review and those to be monitored only annually. The progress of institutional development should be assessed over reasonably longer periods, for example, at the end of every five years. The review process, in other words, must be tailored to fit the nature of the programs and institutions to be monitored.

Technical Assistance for Management Development

62. Aid agencies play an important role in supporting the national forums and local organizations in their efforts to develop management systems and skills. This role may be pursued through: (i) dialogue with and technical assistance to the various national forums and task forces on overall national policies, strategies and systems which influence the development and performance of public and private institutions; (ii) overall assistance to departmental and sectoral training centers, LAN and both public and private institutes/faculties of management and public administration, and to other resource institutions to provide the learning experiences, consultancy services and research (local adaptation) necessary to support management development activities in various organizations and to prepare future managers; this assistance may be carried out under specialized management development projects; (iii) assistance to ministries, core agencies, and large public enterprises in formulating their own comprehensive organizational development/performance improvement programs and then in implementing them; this assistance may take the form of "process consultation"; and (iv) addressing management improvement needs in the context of development projects and sectoral programs to build particular management capacities in support of priority programs and sectoral needs.

63. A review of experience with technical assistance for management and institutional improvement (in the context of development projects) suggests a number of factors which have limited its effectiveness. The most important are: (i) the failure to take a sufficiently broad and long-term view of technical assistance; (ii) the exclusive focus on immediate and tangible results from individual projects and physical facilities, and relying on special project units for implementation; (iii) lack of top management

capacity and support for institutional development; (iv) inadequate involvement of various levels of management of the target institution in the diagnosis and design of solutions; (v) complex administrative procedures for hiring consultants and weak supervision of their work, particularly in the area of institutional development; (vi) ignoring the broad environmental and policy constraints which frustrate institutional performance, and (vii) the lack of cultural adaptation in technical assistance for management development (see Chapter 9, Section A).

64. Specific recommendations for improving the effectiveness of future technical assistance for institutional development include: (i) ensuring recipients' commitment to the objectives and means of assistance; (ii) a realistic phasing of implementation; (iii) improving central agencies' capacity to define, monitor, coordinate and evaluate such assistance; (iv) associating local training and consulting firms with these activities; and (v) systematic adaptation of promising management tools and institutional development approaches to take account of important cultural and behavioral aspects. The Provincial Development Program and the Indonesian fertilizer company (PUSRI) provide examples of useful approaches to ensure effective technical assistance for management and institutional development in the context of regular development projects. In general, institutional development efforts require long-term commitment and adoption of collaborative and learning approaches which permit continuous adaptation in light of local conditions and experience.

65. With increasing awareness of the limitations to wholesale transfer of foreign managerial technology and administrative solutions, the value of investing in indigenous managerial resources and learning systems has become more apparent. In this context, the role of technical assistance should be extended beyond solving specific organizational problems, and should aim at building a self-sustaining local capacity for problem solving and continuous organizational development.

66. The report suggests a number of countries and international agencies whose experience in management development is relevant to Indonesia. Concerned Indonesian managers and educators should familiarize themselves with the wide spectrum of services and various country experiences so they can make informed choices. Meanwhile, aid agencies may wish to participate, with technical and/or financial assistance, in the proposed management development strategy. They might focus first on areas of immediate relevance, such as study tours and overseas training, advisory services to the forums and task forces proposed for organizational development programs and policy reforms, experimentation with workshops to raise awareness of senior managers and policy makers, and generally, promotion of a climate that supports organizational and managerial excellence. While the responsibility for follow-up rests with the Indonesian government and business leaders, donor agencies could facilitate the implementation process through informal coordination among themselves and dialogue on the proposed strategy with designated government agencies. There are many indications that this process has already started (see Chapter 9, Sections B and C).

Update

67. Since this survey has been completed, the Government has taken important measures to improve the regulatory environment for the private sector, the supervision systems of the public enterprise sector, and the policies and programs concerning civil service training and compensation. Among these measures are: the Presidential Instruction No. 4 of 1985 to simplify various regulatory policies concerning imports and exports, Decree No. 3 of 1984 to improve supervision of state-owned enterprises, the reforms of private investment procedures and the Investment Coordination Board (BKPM), the recent initiatives and reorientation of LAN, the creation of a management training center for public enterprises at the Ministry of Industry, the initiation of a management training program for the administrators of the Ministry of Education, the overall expansion of overseas training for managers, and the recent improvements in the salaries of civil servants, including the integration of some in-kind payments into the basic salary structure.

68. Based on discussions on the draft of this report, the Government has established its priority list of projects for management development and has invited all the donor countries and aid agencies to support its efforts in implementing these projects (see table 2). This list is concerned with the early phase of the proposed long-term strategy and will be adapted and updated in light of the Government's own experience with implementation of these projects and its continued dialogue with interested aid agencies.