

Report No. 4965-IND

Indonesia Management Development

(In Three Volumes) Volume II: Main Report

May 20, 1985

East Asia and Pacific Regional Office

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INDONESIA
MANAGEMENT DEVELOPMENT

Volume II

MAIN REPORT

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I. UNDERSTANDING THE MANAGEMENT PROBLEM ^{1/}

A. Introduction and Objectives

1.01 This study was initiated when the Government of Indonesia requested aid agencies to investigate possible means to accelerate the development of its managerial manpower. For some time now, the government has been keenly aware of the serious national shortage of trained managers in the public and private sectors. While some aid agencies have provided specific management training over the past decade, both the government and aid agencies recognize the urgent need to develop a broad strategy for management education and training within a clear policy and institutional framework. Given the difficulties often encountered in such efforts, development aid agencies also concluded that an overview of the problem and a deeper understanding of its complex nature was necessary prior to any further long term commitments. The limited understanding of the problem, the diversity and uncertainty of possible options, and the environmental constraints to sustaining isolated interventions further highlight the need for a comprehensive and coherent strategy.

1.02 The objective of the study was to identify policy issues and strategic choices for management education for government consideration. This objective was expanded as the study proceeded; management education and training had to be seen in the context of the broad policy and institutional environments which have strongly influenced management and institutional development and performance. A more comprehensive definition of the "management problem" emerged from discussions with hundreds of Indonesian policy makers, managers and educators.

1.03 The "management problem" is thus defined as the deficiencies in managerial skills, practices, and systems and the incompatibility of these with the requirements of modern organizations and future challenges. This relatively broad definition incorporates environmental factors which hinder managerial development, including the development of appropriate managerial technology. It also includes the national development (macro) management systems and institution's which govern the formulation and implementation of economic policy reforms, mobilization and allocation of financial and human resources, and interactions between government and business. It takes a "holistic" approach which cuts across individual managerial functions and emphasizes the impact of the external environment on managerial performance.

1.04 The study does not prescribe final solutions to any specific problem; rather, it explores options for building a sustained national capacity for institutional and managerial development. It seeks to promote a deeper understanding by Indonesia as well as the Bank and other donors of

^{1/} For details see background paper on "Understanding the Management Problem", by Nagy Hanna.

present managerial practices, environmental constraints, and future challenges. This should lead to an improved dialogue on management policies and systems (with both the public and private sectors), more effective technical assistance and institution building efforts, and inducing a national movement to develop the full potential of Indonesia's managerial resources.

1.05 This report seeks to understand the basic nature of the problem, as a first and crucial step towards enabling Indonesian managers to improve their own systems and practices. If the report appears, on occasion, unduly critical, it is because it seeks to address difficult problems and slowly changing traditions, not to praise accomplishments which have been significant, nor to propose "ready made" solutions, which would be impractical.

B. Organization of the Report

1.06 Chapter 1 defines the management problem as perceived domestically by key groups in both the public and private sectors, and also by foreign aid agencies. Chapter 2 identifies the key factors and common practices that contribute to the problem. Chapters 3 to 6 define the needs, demand, and supply constraints to management training and development in the Government and enterprise sectors. Chapter 7 analyzes the key factors in the education system which hamper the quality and relevance of management and public administration education. Chapter 8 integrates the broad elements of sectoral strategies into a coherent long term strategy, and recommends priorities for immediate attention and processes for their planning and implementation. Chapter 9 links the proposed strategy to technical assistance for institutional and management development.

C. The Study as a Process

1.07 As the study represented the first attempt to investigate management development on a national scale, the experience of the review team provided important insights into the national capacity to research and analyze the problem, and to evaluate present policies and ongoing programs. The short term involvement of international experts, with diverse experiences, meant that a uniform perspective on the problem, let alone a consensus on the solutions, was unlikely. Yet, diversity of perspectives was important in understanding the problem and averting excessive reliance on the experience of one nation or institution.^{2/} The full time participation of Indonesian staff on

^{2/} Team members were drawn from the following schools of management thought. American, British, French, Indian, Japanese, and ASEAN; staff members of multilateral agencies represented developing country experiences more generally.

the study team was sought, but was not feasible due to the heavy commitments of possible candidates.^{3/}

1.08 Given the nature of management development needs, an iterative and learning process was adopted. Extensive interviews and group discussions were undertaken with diverse Indonesian groups, including policy makers, administrators, educators, business managers and leaders, trainers, and opinion makers.^{4/} Their tentative conclusions and proposals were set out in a series of background papers and then were followed up with subsequent discussions.^{5/} An action program was formulated and presented to the Minister of Administrative Reform in January 1983. This provided a forum for dialogue between the Bank and concerned Indonesian managers and policy makers. This process also involved foreign technical assistance personnel who were already engaged in management training and institutional development efforts in Indonesia. This report, and the proposed long-term strategy are the product of that interaction.

Lack of Forums and Research Capacity

1.09 Two broad issues emerged from this process: there is neither a national forum for discussing management problems ^{6/} nor a national capacity to research and monitor management issues.

1.10 While managers and policy makers were eager to discuss the problem, there were no viable forums to voice these concerns or support managers in their individual efforts. Similarly, technical assistance personnel believed that management training was constrained by many policy and systemic factors, beyond the control of individual managers and trainers. There was no way to channel institution specific experience into broad policy changes or to disseminate such information to other similar institutions.

1.11 The lack of a national forum to address management concerns has several consequences. First, broad policy and environmental constraints cannot be pursued consistently. As a senior official put it, "the management problem is everybody's problem but nobody's responsibility." Second, management issues are conceived along very narrow lines. The growing interest of employers and policy makers in promoting specific management development has not been translated into priority activities of national significance. Not surprisingly, the team found limited consensus on the definition of the

^{3/} An exception was LPPM which participated in the study through its survey of public enterprise training facilities (background paper).

^{4/} About 1,000 interviews in total.

^{5/} See Annex 1 to this chapter for a list of these papers.

⁶ However, the team was hosted by the (then) deputy chairman of development administration and selected managers from several national agencies and enterprises.

problem, as well as on priorities and options. Third, regional needs and perspectives, including those of provincial governments and universities, are not adequately reflected in the central administrators' perceptions. Fourth, despite the concern of some leading universities with professionalizing management, there is little opportunity for potential employers and practicing managers to influence university curricula. Fifth, provincial educational and training centers are isolated and leading universities do not serve as national centers for developing scarce resources, such as teachers and teaching materials, for other training centers. Finally, in the absence of a forum to reflect on this problem, there is a strong tendency to search for "quick fix" imported models as the ultimate solution.

1.12 The present lack of a national capacity to research and analyze management issues is due to several factors. First, Indonesia has little experience with alternative approaches to management development. Second, business circles and educators have not yet attempted to evaluate the effectiveness of present approaches. Third, the present data base for long term national planning of managerial resources is extremely poor. As compared to other categories of manpower, management is the least homogeneous and most difficult to define.^{7/} Managers have extremely diversified career patterns. Requirements relating to their educational background, practical experience and training are very different. The diversity of traditions and cultures in Indonesia adds further difficulties. Reliable and detailed data are not available on the present number of managers or their training needs, nor has any research been done on the main factors affecting future requirements.^{8/} Similarly, basic statistics relating to training facilities in Indonesia are not available.

1.13 Research on management issues is constrained by lack of incentives and resources. There are no national priorities or funds for long term research on management. Large businesses have employed outside, primarily foreign, consultants to solve specific short-term management problems, but seem reluctant to commit resources to longer-term research and development of Indonesian management practices. Hence, we know very little about which managerial styles and organizational structures will be effective in the Indonesian setting.

7/ See Milan Kubr "Trends in Coordination and Planning of Management Education", Management International Review, No. 1, 1974.

8/ A study on business management education in Indonesia has been just completed independently by the Lembaga Management, University of Indonesia; it provides the first field survey of supply and demand of enterprise managers. While its definition of managerial categories, and hence the magnitude of supply and demand, differs from this report, the findings of both studies confirm that the highest unmet demand is for managers with higher education level and that the shortages are especially felt in the modern sector of the economy.

1.14 Certain socio-cultural factors may have also limited research on management and public administration issues. Most Indonesian writers on this subject have taken a formalistic or legal approach and avoided objective analysis and evaluation of sensitive problems of public sector management. Meanwhile, outside researchers have had limited access to empirical investigations. Yet the strength and uniqueness of Indonesian culture warrants such research.

1.15 Practicing managers in some countries have sometimes undertaken research themselves; this does not occur in Indonesia. The valuable experience of successful Indonesian organizations remains untapped, as practicing managers are preoccupied with immediate problems. As few educators have had careers in management, and few managers have been exposed to sufficient mid-career management development programs, there is little interaction between theory and practice.

1.16 In the course of this study, the need to research and plan for management development became apparent. Given the complexity of the situation, the limited data and research base, and incomplete understanding of the subject, the study has drawn upon the perceptions, preferences and insights of various concerned groups. But it did so in ways that would allow the use of this study as an aid in further understanding the problem, and conceptualizing what future actions should be taken. This process should continue and should be institutionalized by Indonesian managers, educators, and policy makers.

History of the Problem

1.17 Concern over the lack of qualified management in government and business dates back to the late 1960s when the New Order Government was attempting to control inflation, increase the productivity and efficiency of state enterprises, and stimulate foreign and domestic investment. At that time, high ranking government officials encouraged some aid agencies, such as the Ford Foundation, to investigate "the management problem". At that time all organizations in government and the private sectors faced management shortages. Given the challenge of creating a disciplined bureaucracy, a stable economy, and a viable private sector, management issues were properly seen as pervading all aspects of organized activity.

1.18 A series of studies by the Ford Foundation in 1969-70 arrived at the following conclusions:

- (a) There were grave deficiencies in all areas of management. Qualified managers were lacking at all levels of government and business. Effective managers were not being developed by the country's educational and training programs.
- (b) There was no concerted attack on the above problems.
- (c) Better education and training alone would not improve public management; policy reforms were also required.

- (d) It was important to improve business management, given the relationship of business enterprises to economic development, social stability, the major role of state enterprises, and other important national objectives.

1.19 Since then, major achievements have been realized in overall economic development including macroeconomic management and the education sector. Nation building efforts have brought unity and stability. In the late 1960s, the National Planning Agency and the annual budgetary process were reformed, bringing inflation under control and discipline to public investment decisions. Administrative reforms increased the efficiency in the civil service and public enterprises. In 1974, a comprehensive civil service law consolidating some 172 separate statutes, several of which dated back to Dutch times. The first computerized census of all public employees was also completed in 1974. Policies and regulations on civil service training and performance, and departmental organization were also formulated during this period. Other major pieces of legislation were enacted in 1979 and 1980 to simplify the annual budgeting process and modify public procurement to promote local construction and consulting industries.^{9/} Major reforms and substantial expansion were also undertaken in the educational system. The regional planning boards (Bappedas) were created and a framework for devolving certain development functions was put in place. Successful programs such as INPRES (decentralized planning, financing, and implementation of small development projects) and Family Planning were launched. Some indigenous entrepreneurs have emerged as leaders of modern corporations.

1.20 Despite these achievements, however, Indonesia's management potential has not yet been fully exploited. In addressing this issue, it is important to underline some of the historical and environmental changes which may have contributed to management development lagging behind other achievements.

1.21 First, in the context of the rapid economic growth during the 1970s, accompanied by substantial expansion and diversification of development programs and organizational structures, in both the public and private sectors, the development of educational institutions and managerial potential could not keep pace. In the public sector management constraints were partially alleviated by the active role assumed by the military in running governmental organizations and public sector enterprises. The 1980s present a very different context (Chapter 2), during which every opportunity to professionalize and expand managerial resources should be exploited.

1.22 Second, during the oil boom, high investment rates and timely utilization of available financial resources took precedence over management and institutional development. Foreign consultants were used to supplement the strained capacity of public and private organizations. Agriculture and infrastructure rehabilitation were the main focus of public management; simple technologies and managerial skills were required for most of these

^{9/} Presidential Decrees 44 and 45 of 1974 and 14, 14A, 18 and 20 of 1979 and 1980.

activities. Senior managers and leaders were preoccupied with immediate problems and with only a few skilled administrators and relatively unskilled staff they had to impose standard, rigid procedures to maintain a modicum of coordination in the delivery basic needs.

1.23 Third, solutions to management problems were perceived in simplistic terms, such as introducing rigid systems and procedures and then training people to operate and maintain them. Education and training tended to focus on maintaining existing systems and practices rather than preparing leaders and senior managers to think of systematic reforms and macro-institutional change. However, such solutions ignore fundamental environmental constraints to management development (chapter 2), and the need to build indigenous capacity for systems development and continuous adaptation.

1.24 Fourth, managerial skills and systems are closely intertwined with a country's history and culture. While Indonesia could import capital goods and modern technology, it could not easily import suitable and effective managerial technology. There is no universal management theory or consensus on a basic management education model. Thus, with only limited capacity to research and adapt foreign management techniques, the formation of managerial skills and improved systems lagged behind other activities. Some pilot activities were initiated, sometimes with notable success (e.g. LPPM), but they were not adapted and replicated on a sufficiently large scale to have a broad impact.

1.25 Finally, no single agency could be assigned exclusive responsibility for management development. Management development requires broad and continuous involvement of leaders and managers in the diagnosis and the search for appropriate solutions. Isolated or externally imposed interventions could not be effective or sustainable.

1.26 Despite these constraints, significant progress was made in some specific organizations, ministries and enterprises. Among the leading examples in public enterprises are PUSRI (fertilizer) and PLN (electricity), and in ministries, Finance and Public Works. Most organizations, however, still look to formal educational institutions, ad-hoc and "packaged" solutions provided by outside experts, or the long and inefficient process of uncoached on-the-job experience. Moreover, even those organizations which initiated their own management development systems could have made greater progress in a more conducive environment.

D. The Management Problem Viewed by Aid Agencies

1.27 Aid agencies' perceptions of Indonesia's management problem may be classified into those which relate to project preparation and implementation, to operation and maintenance (O&M), and to technical assistance for institutional development.

1.28 Most problems commonly observed during preparation and implementation are due to weak planning and rigid budgeting, complex implementation

procedures (such as land acquisition and procurement policies, particularly those governing the construction industry, and consultant recruitment), excessive centralization, weak coordination, inadequate civil service policies, and poor monitoring and evaluation.

1.29 Whereas construction can be performed by outside (i.e., foreign) contractors, the operation and maintenance of new facilities must usually rely on local skills and management. Inadequate maintenance and poor operational performance are particularly apparent in irrigation systems, hospitals, educational institutions and public enterprises. The budgetary process and civil service compensation systems favor investments in new projects over the provision of adequate funds for full utilization and adequate maintenance of existing capacity. Maintenance allocations tend to be consumed in overhead, and other non-maintenance costs, with the result that often less than half of the originally allocated amount remains for actual maintenance.

1.30 The impact of new facilities is often below expectations. Benefits are lost as potential users are not involved in planning and implementing the project. In irrigation schemes, for example, there is little coordination among local governments and the Ministries of Public Works, Agriculture, and Home Affairs to ensure the development of effective water user associations and extension services. Utilization of new health facilities is less than 50 percent of capacity. In general, a significant part of the benefits of new investments remains unrealized, particularly when mobilization of demand or users' involvement is required.

1.31 Aid agencies usually focus on the constraints which affect their projects directly, often ignoring the overall policy environment, with the result that their diagnosis of "management weaknesses" is usually in superficial terms. Institutional development projects (or components of projects) suffer from greater implementation difficulties than the physical facilities. The most fundamental constraint to successful technical assistance for institutional development has often been the weak commitment and capacity of senior management of the target institution and the inadequate adaptation to on-going processes and cultural factors. (Chapter 9 discusses some of the common factors influencing technical assistance performance for institutional and management development.)

Cost of Inefficiencies and Lost Opportunities

1.32 Substantial gains could result from prompt completion of projects, proper maintenance of facilities and machinery, higher operational efficiency and fuller use of human capital. Implementation delays can be especially costly. At present, implementation delays (vis-a-vis appraisal estimates) in World Bank assisted projects add some 20% to project costs.^{10/} Implementation delays also postpone benefits, in terms of forgone output, employment and incomes. Implementation delays can tie-up expensive capital and foreign exchange in slow-moving projects, slow disbursements from committed project

^{10/} World; Bank, World Development Report, 1983.

aid, and generally, slow future commitments of external assistance. It is likely that non-aided projects suffer even greater delays. The costs of poor quality implementation (i.e., poor construction, inappropriate software) may be equally great.

1.33 Poor maintenance leading to costly rehabilitation of infrastructure is another area of concern. Investments of about \$2 billion dollars were required to rehabilitate Java's irrigation systems and road network during the 1970s. Benefits lost in earlier years from poorly maintained structures were substantial.

1.34 Obviously, gains in operational efficiency save not only running costs and benefits (output) but also capital investments. Low utilization of transport facilities such as locomotives and ports is common. Lost productivity in Indonesian enterprises can add 30% to 50% to total operating costs.^{11/} Capacity underutilization is a frequently observed feature of many firms, particularly those using new capital intensive technologies. These may lie idle or underutilized for long periods due to poor planning of other inputs (including knowhow).

1.35 In industry, operational efficiency is critical to competitiveness and hence to future growth. Although the work force appears well disciplined, overall productivity is generally poor due to inadequate training, and inefficient assignment of labor, poor operating practices, and a dearth of effective supervisors. The quality of products is often low, and where quality control is applied there is a high level of rejects. In manufacturing, the lack of managers with engineering backgrounds often constrain the development of an indigenous capacity for research and development of new products and for increasing the local content of assembled ones. Overall, management systems for production and inventory control, cost estimating, etc. are at an early stage of development, even in fairly large companies. Hence, most indigenous companies lack the systems necessary to determine their own competitiveness, to adjust effectively to market conditions, and to capture new opportunities.

1.36 One of the least appreciated aspects of productivity is human capital, particularly "knowledge workers", i.e., managers, planners, researchers, and other professionals in staff functions, all of whom represent a high social investment. With the increasing complexity of the economy, the proportion of these workers in the labor force will increase. Despite their high opportunity cost, this is the least analyzed of all factors of productivity. Highly centralized management structures and systems do not utilize management talents at lower levels, waste scarce resources, and distract top managers from their strategic functions.

1.37 Management is concerned not only with efficiency but with effectiveness, e.g. bringing an organization closer to the full realization of its

^{11/} For example, during the evaluation of plants in the engineering industries, the factor of poor management was identified as the main source of inefficiency (called x-inefficiency).

potential. In this context, managers are entrepreneurs who must focus on setting institutional objectives, and identifying and exploiting opportunities as they arise. Effectiveness involves institution building, and the continuous exploitation of the comparative advantage. This task is particularly important for a developing society.^{12/}

1.38 Ineffective management is immensely costly, to enterprises, to consumers, and to nations. Failure to define appropriate goals and strategies of the enterprise may lead to its complete extinction, indeed, the extinction of an entire industry, within a very few years. If protected from outside competition and the consequences of mismanagement, enterprises become a burden on the government and the consumers.

1.39 Improvements in efficiency and effectiveness are critical not only to economic growth, but also to equity. Inefficiency consumes resources in bureaucracies and nonessential activities and hence competes against vital public services and basic needs programs. Ineffectiveness results in not providing the most appropriate mix and standards of public services to the most needy. The consequences of inefficiencies are felt most by the least powerful and most needy consumers - the poor. In Indonesia, they also have the most impact on those regions with the least developed managerial resources and public institutions - the potentially rich, but less populated Outer Islands.

E. Indonesian Perceptions of the Management Problem ^{13/}

1.40 Extensive interviews with Indonesian government officials and businessmen were conducted to ascertain their perceptions of management constraints. The basic themes that emerged from these interviews were: (i) the powerful influence of external (environmental) constraints on management

^{12/} Ensuring effectiveness, as a key management task, goes beyond making the right allocatiave decisions. In the history of entrepreneurship, whether in the USA, Japan or other countries, success stories of industrialization indicate that enterprise managers do not merely react to economic developments. As Peter Drucker put it: "Managing also implies responsibility for attempting to shape the economic environment, for constantly pushing back the limitations of economic circumstances on the enterprise's ability to contribut".

^{13/} Management problems are multi-dimensional and proposals for solving them require intimate familiarity with the institutions and goals of the society. Outsiders' attempts to study this issue in Indonesia have often suffered from the uncritical application of Western management principles, without adequate consideration of the unique character of indigenous institutions. Hence, this study adopts a collaborative approach and attempts to reach a "skared" definition of the problem.

performance; (ii) the essential role but inadequate promotion of entrepreneurship; (iii) the crucial role of management development in Indonesia's future; (iv) the diversity of management and management of diversity; (v) the role of education and training in management development; and (vi) the transferability of Western management practices to Indonesia.

Macro Constraints

1.41 Perhaps the most pressing issue, as seen by Indonesian managers, is the prevailing constraints to management development and performance in the Indonesian environment. The Indonesian manager operates with poor information and support systems in an uncertain environment over which he has little control. Many business leaders and top administrators believe that a proper diagnosis of management weaknesses must go beyond individual performance and address the underlying factors in the broad policy and institutional environment. For example, while the central guidance agencies have substantial regulatory power, they are limited in their ability to assess the impact of their policies. Meanwhile, managers of implementing agencies are hard pressed to cope with these regulatory burdens under conditions of limited support from the central agencies.

1.42 Other constraints are the budgetary process, civil service policies, and the hierarchical orientation and centralized authority at all public institutions. Budgeting procedures are too detailed, centralized and compartmentalized, and impose an excessive administrative burden on managers. These procedures have not accommodated the growing need for flexibility and local coordination, or promoted capabilities at lower government levels. Civil service policies are perceived as instruments for regulating behavior rather than management tools for motivating staff and rewarding performance. The centralized authority within ministries makes inter-agency coordination extremely difficult, except at the very top management levels.

1.43 Senior bureaucrats often view the external constraints faced by private managers either as necessary to achieve other policy objectives, or inevitable for a developing country. Thus, they feel managers should learn to cope with external constraints and tend to view opposing views by entrepreneurs as pretexts for absolving businesses from their social responsibilities. Not surprisingly, these bureaucrats are perceived as unsympathetic to private sector concerns. This contrasts sharply with formal government policy which espouses partnership between the Government and business. Private enterprises, particularly indigenous ones, would like to see government support for business development including promotional efforts for potential overseas markets. A similar gap in perceptions exists between public enterprises and their supervising ministries.

Entrepreneurship

1.44 There is a strong consensus that the development of entrepreneurial talent is essential to the development of the private sector, to broad based industrialization, to the creation of off-farm employment opportunities, and to a more equitable sharing in the benefits of development. Some opinion makers see the entrepreneur as the supplier of venture capital, and more

importantly, of innovation; he is thus the essential link in bringing available resources and "potential" investment opportunities together. They suggest that historical experience indicates that a society, which lacks entrepreneurial motivation at a certain point in its history, can fairly quickly change its orientation whereby the entrepreneurial function is transmitted rapidly throughout society, as was the case with Japan through the Meiji Restoration.^{14/} The challenge is then to devise programs that would channel the drive and energy of nationalist movements into entrepreneurship and innovation. Mass education and media could support government policies in providing the medium for change. Education would be reformed to prepare graduates to become "job creators" rather than "job seekers."

1.45 While there is a strong consensus on the need to mobilize the resources, skills and ingenuity of the broadest possible spectrum of society, there is much less consensus on how to support and broaden the present pool of entrepreneurs. With little exposure to basic management concepts and skills, most small businessmen tend to have a fairly parochial outlook, unaware of how vitally managerial practices can influence their businesses. Some businessmen, see protectionist measures and expanded credit facilities as a means to give them a fair chance to learn and grow. Some see a useful role for subcontracting between the modern large scale enterprises and the vast majority of indigenous enterprises which are very small, labor intensive and have limited capital and skills. They believe that new managerial skills and attitudes could result from establishing "father-son" relationships between the large and small enterprises. This group also believes that entrepreneurship can be transmitted through the "role models" of experienced and successful entrepreneurs. Another group, composed of educators and some senior officials with entrepreneurial aptitudes, expect to secure indigenous (pribumi) leadership of business in the future through advanced management education, modelled after the most elite Western schools of business.

1.46 A number of leading economists attribute the shortage of entrepreneurs to over-regulated and distorted markets. With market liberalization, private sector growth could generate adequate opportunities for potential entrepreneurs. However, business leaders see historical and cultural factors at the root of the problem. Market forces may not redress the handicaps faced by pribumi entrepreneurs. For them, the issue is how to develop an effective business culture, competitive skills and learning opportunities. They expect that special training programs and public campaigns could nurture motivation, risk taking and attitudinal changes. They criticize indigenous enterprises for their short term orientation and reluctance to invest in the long term development of their staff. They recognize that "achievement motivation" courses and basic skills do not produce successful entrepreneurs, unless supported by other conducive environmental conditions. They pointed to the need to go beyond classical macroeconomic tools and develop social processes to support and reward achievement, to disseminate information and increase the

14/ Suparman Sumahamijaya, "Wiraswasta Entrepreneurship: The Key to Development and Progress", Asian Regional Seminar on the Contribution of Science and Technology, 4-6 October, 1978.

ability to identify economic opportunities, and to increase the predictability of economic relations.

1.47 Concern with entrepreneurship is closely associated with the predominance of the small firms and small communities as the basic units of economic and social organization. Some 80 to 90% of all private nonagricultural firms are family owned, family controlled or family managed and 80% of the population live in small villages. Values, practices, and the family culture are largely transferred from the family to the firm.^{15/} In this setting, the entrepreneurial qualities of the family leader are clearly critical; he possesses virtually all decision making authority in the firm. A similar role is played by the leaders of the villages and small towns.

1.48 Almost none of those interviewed included managerial styles, structures, and incentives as determinants of entrepreneurial "spirit" within the larger and modern organizations. In contrast, research elsewhere emphasizes the role of communication systems, decentralized structures, adaptive planning, incentives for professionalism and innovation, and responsiveness to the clients in shaping entrepreneurship, particularly in medium and large enterprises.^{16/} Furthermore, recent research also suggests the importance of autonomy, tolerance for risks in experimentation, nurturing of "champions", internal competition, and shared values in promoting entrepreneurship.^{17/} Similar processes and incentives are necessary to provide an entrepreneurial and service orientation to public agencies.

Management Role in Future Development

1.49 There is a growing but uneven awareness among officials and business leaders that managers will face severe challenge in the coming years in modernizing the bureaucracy and industrializing the economy. Business managers realize that technology is changing management systems and practices at a fast rate and that learning through trial and error alone is costly and slow. Technology will help them manage their complex and growing organizations only to the extent they are skilled in tapping its potential. Those who compete in international markets or high technology fields are most concerned about improved management. Within the civil service, public enterprise managers, have a relatively clear "bottom line" measure of performance. Among the state enterprises, the state banks seem to be the most concerned about management development, particularly since the recent financial reforms. With the

^{15/} This is true for Southeast Asia in general. See Gabino Mendoza, "The Transferability of Western Management Concepts and Programs, An Asian Perspective," in Education and Training for Public Sector Management in Developing Countries, Rockefeller Foundation, 1977.

^{16/} See Danny Miller, "the Correlates of Entrepreneurship in Three Types of Firms", Management Science, Vol-29, No. 7, July 1983.

^{17/} For example, see Thomas J. Peters and Robert H. Waterman, Jr. In Search of Excellence, Harper & Row, New York, 1982.

exception of top administrators of central and local governments, the bulk of managers in the civil service are not particularly concerned with management development, as they view themselves as overseers of rules and regulations rather than decision-makers or promoters of change. Management weaknesses in service-oriented sectors, such as health, are particularly acute.^{18/}

1.50 There are also significant variations in "management consciousness" corresponding to different levels of competence. However, most of the well educated and/or younger managers believe that weak management is a primary constraint to future development; they are also convinced of the need to adopt new technologies, penetrate new markets and maximize returns on assets.

1.51 Perceptions of the management problem also depend on how the management function is conceived. Some Indonesian intellectuals and policy makers see managers as a major "social force" and feel that the leadership of the private sector must therefore be indigenized. They view management, rather than economic forces, as the engine of economic and social development. They underline the role of managers as institution builders, resource mobilizers, social innovators and value shapers. They see a key role for managers in making administrative structures and procedures more responsive to social and economic change. "Administrators [are required] who realize that in a rapidly changing society, with a rapidly increasing population, and all the additional social changes following from it, administrative procedures should be capable of continuous adjustment to demands and needs arising from those changes, and from the greater political awareness of larger parts of the population than before."^{19/}

1.52 Many of those who participated in shaping Indonesia's successful macroeconomic policies have emphasized that the implementation of many recent policy reforms will depend on the capacity of institutions to adapt and compete. They appreciate the need for continued adjustment to the rapid economic and technological changes in the international environment; but they also recognize that present managerial and institutional capacities are not sufficiently developed to ensure that, once formulated, an appropriate policy framework can be implemented and can elicit adequate responses. Often, well-intended policies are poorly understood and implemented at the lower levels of the bureaucracy. The private sector has tended to take a short-term view of opportunities and risks, to expect high protection and extremely short pay-back periods (i.e., very high financial rates of return), and to concentrate on trade and speculative activities (e.g. in land and real estate).

1.53 Some business leaders are keen to undertake management development efforts as expeditiously as possible, given that the "making" of top managers is a slow process, generally requiring 10 years or more. In Indonesia,

^{18/} Indicated as the highest priority in a speech by the Minister of Health, the Indonesia Observer, July 28, 1983.

^{19/} Soedjatmoko, "National Policy Implications of the Basic Needs Model", Prisma, Indonesian Journal of Social and Economic Affairs (March 1978).

learning strategic management is more difficult than functional management, since many of the skills needed for top managers are less technical and more behavioral and social;^{20/} such skills are difficult to transfer, take longer to mature and are often ignored in management training programs.

1.54 The priority attached to management development is highest among managers with an outward looking, long term perspective and a belief in their own ability to shape the future. The highest levels of government are generally optimistic about influencing the future. Unfortunately, this view is not shared adequately at lower levels of government and management, where managers may have little autonomy and motivation to influence "today" much less the future.

1.55 Officials of the Ministry of Education have identified management capacity as the highest constraint confronting the education sector. Yet, they are faced with competing public and faculty demands for expansion in various disciplines, and hence may not be able to give management education the priority it deserves. It is certainly true that Indonesia lacks trained professionals in many fields. However, since the effectiveness of all professionals depends not only on personal education and experience, but also on overall institutional efficiency, the institution's managerial competence is clearly crucial. Hence, investment in management education would permit all other professional areas to realize significantly greater productivity.

Management of Diversity

1.56 In the course of preparing this study, one theme that recurred frequently was the incompatibility between the policies and programs that are centrally designed and uniformly implemented on a national scale, and the diversity of needs and capabilities in various regions and institutions. The imposition of uniformity over diversity may be due to the desire for national unity and equity, and the scarcity of skilled management at the local levels.^{21/} There are few opportunities for local administrators to learn from each others' diverse experiences. This isolation reinforces the dependency of local governments on the uniform solutions of central administrators.

1.57 For example, neither local government training, nor management education reflects local differences. The quality of education declines substantially in more remote provinces, but the curricula and content of training are surprisingly uniform. Few central government staff posted in the regions receive training in field-oriented skills and whatever they receive is not adapted to the specific needs of their regions. Because of the high concentration of good training resources in Jakarta, large enterprises usually send their trainees there for short courses. Local universities are thus isolated, not only from international developments in the management field, but also from the involvement of potentially sophisticated users in their regions.

20/ The skills of delegating, organizing, coordinating, motivating, controlling and developing people.

21/ The state logo is "Bhineka Tunggal Ika" or unity in diversity.

1.58 There is great variety in Indonesia's local institutions, managerial cultures, and leadership styles.^{22/} Similarly, the attitude towards management and business vocations among Indonesian ethnic groups varies greatly. The entrepreneurial spirit of the Bataks, Bogenese, and Chinese is well known. This has important implications for management education and for identifying management styles that can effectively accommodate ethnic diversity among subordinates. Similarly, the traditions and attitudes of various local administrations are heterogeneous, despite attempts to unify the civil service on a national scale. Business cultures and dominant enterprise characteristics also vary significantly among regions. No research has yet been done on the types of managerial approaches which would respond to these different socio-cultural and institutional contexts; and thus this remains a critical dimension of the management problem.

The Role of Education and Training in Management Development ^{23/}

1.59 The expectations for management education vary between younger and older managers, modern and traditional enterprises, and educators and employers. Older owner-managers and those who rose from the ranks are often more skeptical about the role of universities in management development than the better educated younger generation. Large companies, particularly those in advanced technological fields and competitive markets, are particularly keen for more educated managers, especially with combined degrees in engineering and business. However, some sophisticated large private enterprises question the quality of university graduates, including those from the business programs of the leading universities.

1.60 A common misconception among educators, employers and students is that university management programs can produce managers who can "walk into" managerial positions directly, without undergoing a long period of apprenticeship or planned experience. The lack of line managers' involvement in the development of their subordinates and the absence of management development programs within the user organizations perpetuate this expectation and may lead to disappointments and perhaps total rejection of the role of universities in preparing potential managers.

1.61 One senior company executive who had recruited business graduates commented: "It is sad but true. The typical graduate has read and copied from books for his thesis; he has no conclusions of his own. Nor does he have any notion of how he could apply his ideas in practice". A leading public administration educator commented, "the bureaucracy does not want administrators or managers who think independently, who want to take initiative or who can entertain imaginative solutions. The university program is intended

^{22/} The population of 156 million (1983) comprises over 50 ethnic groups and over 300 language groups. For appreciation of diversity among regions, see World Bank, Selected Aspects of Spatial Development (forthcoming).

^{23/} See Annex 2 for definitions of emerging concepts of management training and development.

to teach civil servants to be patient, behave properly, and not upset anyone." Although most educators acknowledge the deficiencies in present management education, no adequate remedial action has thus far been taken on a national scale.

1.62 Equally strong concerns were voiced about the quality and relevance of public administration education. University based administrative training is considered too broad and theoretical, while training within departments is viewed as too narrow, and limited to the administration of existing rules and methods. Despite increased civil service training in recent years, there is doubt about its effectiveness. The role of training in addressing specific organizational performance problems is unclear. Many of those interviewed felt that civil service training reinforces attitudinal problems and centralized control, when it should be encouraging new attitudes and behaviors.

Transferability of Management Practices to Indonesia

1.63 Indonesian educators and managers are faced with whether to borrow, adapt, or innovate improved management practices. A common concern among practicing managers is the development of an Indonesian style of management, which is bound neither by traditional practices nor by Western management fads. Concepts which are relevant to Indonesia should be researched and developed.

1.64 Many Indonesian managers believe they could benefit from the experience of other Asian countries in public administration and management education. Japan may provide a relevant model for business management practices. Many emphasize the unique features of an Asian context of management; the experience of leading management institutions such as the Asian Institute of Management are often cited as relevant, and a few leading Indonesian companies have recently employed management trainers from ASEAN countries. Despite their concerns with the relevance of borrowed concepts, the majority of managers expressed a keen interest in learning from the experiences of other, especially neighboring, countries. Their criticism of imported management concepts is targeted more at the expensive short seminars on new management tools that are conducted by "fly by night" foreign management consultants, and at business schools of state universities which have failed to adapt their curricula to Indonesian conditions. Such criticism is also a reaction to common practices of foreign management consultants who focus on problems and weaknesses but ignore future opportunities, and fail to build on present cultural and institutional strengths.

1.65 The feasibility of transferring management practices depends on the nature of management tasks, the culture of the "receiving" organizations, and technological intensity. For example, personnel management practices are the least susceptible to transfer and their ramifications the most difficult to anticipate. Lower level management and supervisory functions are more influenced by traditional practices and socio-cultural norms than higher levels. Local government administrators are bound by the deeply rooted traditional culture of the local population. Central government may be more open to imported management concepts than most local administrations but less so than public enterprises; central agencies are strongly influenced by historical

traditions and have distinctive administrative subcultures. In turn, public enterprises are still more influenced by civil service norms and practices than the private sector. And within the private sector, joint ventures and export-oriented enterprises are the most likely to experiment, accommodate, or initiate modern management practices. Finally, technology imposes its own demands on management practices. While traditional industries such as textiles might perform relatively effectively with traditional management methods, more modern industries, such as petrochemicals and electronics, have sought more modern management tools. Transferability is more promising in sectors that are technology-intensive than in sectors that are people-intensive, where cultures and values determine receptivity and adoption.

1.66 Thus, different degrees of adaptation of foreign concepts will be required by various sectors and organizations. This underlines the danger of "imposing" an imported management model uniformly on Indonesia. Some observers have reacted to this prospect by turning inward, advocating sole reliance on traditional management practices as the "Indonesian way" of doing business or managing. Yet, some accommodation to international business practices will be necessary, at least for modern export-oriented enterprises. This process is necessary even for industrialized societies, as Japan has demonstrated and as the USA is now learning. Other observers underestimate the importance of adaptation and point to the relatively effective use of foreign management practices to certain types of firms. There is no ready made model for other Indonesian organizations. More research on this issue is clearly required. The transferability of people-oriented qualitative management practices, in particular, should remain an important issue to be systematically addressed in future technical assistance (paras. 9.16 to 9.18).

CHAPTER II. THE MANAGERIAL ENVIRONMENT ^{24/}

2.01 Management performance, in any country, depends on many factors beyond formal education and training. Historical, cultural and social considerations are major determinants of the society's perception of how institutions (both in government and industry) are organized and what properly constitutes the "managerial function." Thus these bear directly on the design and implementation of management policies, systems and tools.

2.02 In Indonesia, many environmental factors are not especially conducive to managerial development and performance: the centralization of authority, buttressed by a complex mix of procedures and regulations; fairly mechanistic planning, budgeting and monitoring systems; inadequate personnel management and civil service policies; and centralized and limited capacity for organizational change. Achieving the attitudinal modification and policy improvements to overcome these factors will be much more difficult than implementing the educational and training reforms recommended elsewhere in this report. Meanwhile, better understanding of cultural strengths and identification of effective Indonesian styles of management could accelerate this process.

A. Cultural Factors

2.03 Indonesian culture is characterized by a marked element of paternalism/authoritarianism in most relationships and a strong desire to avoid open conflict and its consequent loss of face. Closely related to these are other important cultural traits, including decision making patterns based on peer group consensus (not necessarily reflecting total consensus throughout a hierarchy), group cohesiveness, a relatively high tolerance for ambiguity, general disapproval of obviously competitive behavior, widespread symbolism and a high regard for self-control and orderliness.^{25/} Taken together these factors have important implications - some negative, some positive - for management styles:

^{24/} For details, see background paper to the study on "The Managerial Environment" by Nagy Hanna.

^{25/} For background research see Hofstede, Culture's Consequences: International Differences in Work-Related Values, Beverly Hills, CA., USA, SAGE Publications; and Geertz, The Religion of Java, Univ. of Chicago Press, Chicago, 1960. Most of these cultural traits are specifically Javanese; they constitute the majority ethnic group. The bureaucracy, particularly of the Central Government, has strongly assumed these Javanese characteristics.

- (a) There is a marked tendency toward centralized and paternalistic authority in both modern and traditional organizations. Superiors often assume a "father" like role;
- (b) Conflict avoidance carries with it a built-in tendency towards maintaining the status quo and protecting vested interests, particularly those at higher levels. Contentious policies may be instituted but not always enforced. Disagreement or criticism is usually manifested in delay or evasion;
- (c) The circulation of information between superiors and subordinates is severely limited; as a result, decisions are often made without the fullest possible information. Feedback and evaluation are discouraged;
- (d) Disapproval of competition discourages innovation and risk taking in favor of conformity; there is little tolerance for those who take initiative and then fail;
- (e) There is more emphasis on the externals of office-holding, i.e. the ceremonies and status that go with it, than on actual performance. Management tools and courses are introduced and ritualized, with little attention to their practical impact; this may actually encourage their misuse.

2.04 Further development of management practices should incorporate the strengths of cultural factors. For example, paternalism provides a sense of security for subordinates and might be used to induce superiors to take greater responsibility for developing their subordinates, while its authoritarian aspects might be diminished by promoting democratization of work relations. Moreover, the role model (symbolic) of senior managers and leaders can provide a powerful tool for creating new norms and shaping the behavior of subordinates. A tolerance for ambiguity may delay problem solving and formation of coherent policies, but creates room for compromise. The need to maintain face and group loyalties could be harnessed to improve group performance. Decisions reached by peer consensus may be time consuming, but once agreement is reached, smooth implementation is more likely; some management tools could be used to streamline this process and broaden participation by including lower management. There are other sources of strength which may be subtle for outsiders to detect. For example, some religious values seem to provide spiritual support to managers under a great deal of stress and uncertainty. Management research should seek further understanding of these cultural factors to better adapt management tools to indigenous practices and build on cultural strengths (see Chapter 9, paras. 9.09-9.10 and 9.16-9.19).

B. Historical Factors

2.05 During the Dutch colonial period, Indonesians were restrained from positions of economic or administrative power. Attempts to develop a local education system were limited as the colonial power was mainly concerned with

ensuring an adequate supply of cheap labor. A deliberate effort was made to maintain the status quo in the social system which divided society on the basis on ethnic origins and social status, with predetermined educational routes for each group. The maintenance of this system foreclosed higher educational opportunities to all but the aristocratic classes. Clearly such colonial domination discouraged the development of an entrepreneurial spirit.^{26/} In fact, many Indonesians seem to feel that colonialism fostered passive attitudes, sapped initiative, and created resentment among the indigenous Indonesians against non-pribumi economic power.

2.06 Following independence, amid considerable political instability, the task of building local administrative and entrepreneurial capabilities was extremely difficult. The administrative vacuum was filled by freedom fighters, the student army, religious leaders and lower ranking clerical personnel. Throughout the 1950s-60s, the Government apparatus expanded rapidly as politicians strove to create jobs and balance many competing interests. At that time, the problems of Indonesia's bureaucracy - unwieldy, underpaid, poorly skilled and undisciplined - seemed insoluble.^{27/} Under the New Order Government, in the late 1960s, the military assumed significant political power and some fundamental civil service reforms were enacted to streamline the bureaucracy. The armed services were subsumed under the civil service which consequently took on a command style of leadership, reinforcing the notion of centralized authority.

C. Indonesian Management Concepts And Practices

2.07 Cultural and historical factors, and public policies strongly influence the Indonesian manager's perception of his function. In turn, commonly held managerial beliefs and professional norms condition the evolution of future managerial systems and policies.

2.08 Any assessment of managerial or institutional effectiveness cannot be very precise since it involves a considerable element of judgment about many abstract and interdependent concepts that do not lend themselves to

26/ See also Philippe Lasserre, A contribution to the Study of Entrepreneurship Development in Indonesia, INSTEAD, 1979; Wilfred and Neill, Twentieth Century Indonesia, Columbia University Press, New York, 1973; Twentieth Century Indonesia, Columbia University Press, New York, 1973; and Burhamzah, A Survey of Economic Development in the Outer Provinces of Indonesia, Institute of Developing Economies, Tokyo, 1971.

27/ For understanding the historical roots of present Indonesian bureaucracy see: (1) The Making of a Bureaucratic Elite by Heather Sutherland, Heinemann Educational Books Ltd., Singapore, 1979; (2) The Indonesian Bureaucracy by Theodore Smith, Ph.D. thesis, 1971; (3) The Indonesian Civil Service and its Reform Movements by Djunaedi Hadisumarto, Ph.D. thesis, 1974.

direct measurement. In Indonesia, such judgments are particularly difficult given the paucity of research in this area, and the following observations are thus only tentative. In the absence of international standards, Indonesian practices are contrasted against recent research on the most successful management practices in a number of cultural settings.^{28/}

2.09 There is considerable variation in overall managerial competence and practices across Indonesian organizations, often depending on the age, size, technology, products (services), and the immediate task environment of the agency or enterprise. Present practices have also evolved through time and therefore should be viewed with an historical perspective. Moreover, the following discussion does not imply that these problems are unique to Indonesian managers. In fact, most are commonly observed features of managers in many developing (and sometimes developed) countries.

2.10 Indonesian management concepts and practices are organized here around the following dimensions: (a) the role of managers and administrators (style); (b) organizational structures and practices (structure); (c) decision making systems (systems); (d) personnel policies and practices (skills); and (e) orientation to market, service and environment (strategy).

The Role of Managers and Administrators

2.11 Indonesians commonly view the managerial function as the process of administering procedures, controls, and restraints. Management is associated primarily with budget power and authority, and less with responsibility and contribution.^{29/} Stability and regularity take precedence over change and entrepreneurship. Senior public managers do not view themselves as "managers", a term which they reserve for businessmen, but as bureaucrats or administrators.

2.12 The historical, cultural and socio-political factors discussed earlier have contributed to this view of the managerial role, and this has important implications for the distribution of authority and responsibility, allocation and integration of tasks, and reliance on controls and regula-

^{28/} Most of available research on the subject, however, reflect effective management practices in American or Japanese settings; only two exceptional studies were completed recently on successful management in developing countries: Samuel Paul, Managing Development Programs: Lessons of Success, Westview Press, Colorado, 1982; and David Korten, et al, Bureaucracy and the Poor: closing the Gap, McGraw-Hill International, 1981. For lessons from successful programs also see World Development Reports, World Bank, 1980 and 1983.

^{29/} This contrasts with management writers' definitions of management (such as Peter Drucker and William Siffin). These definitions emphasize the effective creation of objectives, opportunities and changes. Management "is a function which remains when all else has been subjected to rules and specification" (William Siffin).

tions. This view also constrains the development of subordinates, the performance of top management, the capacity to support and promote, and the relevance of management education.

2.13 Managers and Supervisors in Indonesian organizations are often perceived as father figures. This tends to reinforce the hierarchical relationship as the primary source of authority and of the "flow" of actions. Subordinates usually do not see alternative sources of authority (e.g. expertise, professionalism) as legitimate, and seldom will they initiate any action, however important, without direct instructions. Similarly, subordinates are seen as general assistants who only act on a supervisor's instructions.^{30/}

2.14 Of the various modes of coordination and control, Indonesian managers in small-scale organizations, tend to rely heavily on direct supervision and, within large ones, on standardization of work processes. With a relatively unskilled bureaucracy, senior managers have had to break down complex tasks into the smallest possible components to reduce skill requirements (horizontal specialization). They have relied on direct supervision for coordination. Similarly, performance of work had to be separated from controlling or administering it (vertical specialization). Over time, as public organizations expanded, their work processes became more formalized and standardized, thus reducing the role of middle and lower level managers. When standardized activities were not possible, detailed programming and budgeting was used to prescribe the specific actions to be carried out, thus reducing the autonomy of lower level management and further centralizing authority and information in large organizations.

2.15 There is an overwhelming predominance of centralized controls and authority throughout the economy - at all levels of government, between government and business, and within individual enterprises. Frequently, this tends to generate uniform and rigid prescriptions for diverse needs and situations. The central agencies become preoccupied with formulating regulations, and administering detailed budgets and multiple controls. Administrative solutions are sought in situations where policy or skill improvement measures would be more appropriate. As deviations occur, senior managers often impose even more controls and regulations (a vicious circle occurs).

2.16 In such circumstances promotional and supportive efforts are totally eclipsed by the preoccupation with controls. Excessive regulation puts severe strain on local officials and field managers, often impeding their ability to respond to specific field situations. Meanwhile, there is little central capacity to support weaker institutions and lagging regions. Business managers are similarly preoccupied with interpreting bureaucratic regulations governing their operations. Such controls distract both enterprise managers and public administrators from efforts to develop the private sector. This situation further increases the communications gap and breeds mistrust between the public and private sectors.

^{30/} For an application of these general patterns to a case study see: Skill Profile Analysis for Management Training, LAN, IBRD/UN Project, 1979.

2.17 The view that management's function is limited to control also contributes to the twin condition that top management is overburdened, while the development of middle and lower level management is neglected. Top managers do not focus on developing their subordinates' capacity for problem solving. Tasks assigned to subordinates are often urgent with tight deadlines, thus permitting no time for coaching or learning. Responsibility and authority are not delegated because superiors consider subordinates incapable, and, in turn, subordinates are not capable because they have virtually no experience with authority and responsibility. This is summed up as the "authority trap".^{31/}

2.18 This view has also narrowed the scope of middle and lower level managerial jobs and the functions, skills, and growth prospects associated with them. Often even senior managers feel that their jobs permit very little non-routine decision making. Yet given the limited pool of competent managers at this time, senior executives ought to assume greater responsibility for developing the human resources of their organizations and push for effective delegation.

2.19 Recent management thinking emphasizes the role of managers as institution builders, capable of stimulating creativity and self-development among their staff. Successful large organizations in some more developed countries tend to delegate managerial decisions as far down as possible, to tap and develop the largest possible pool of managerial resources. Research also emphasizes the important roles for managers as shapers of institutional purpose, as providers of "transcending" values for their staff, and more generally, as leaders.^{32/} An effective organizational culture will impart clearly stated values, commitment to high standards of performance, and positive reinforcement. Effectiveness, especially in people-oriented development programs, may depend essentially on "leaders skilled in creating new visions of the possible and in guiding actions towards their accomplishments."^{33/}

2.20 This view of the managerial function has important implications for management education and training. Present public administration education focuses on managing institutions as they are, rather than examining their objectives and possible options for improving their structures and systems. Imported management education models often introduce new concepts for decision making that may have no relation to local practices. Yet research suggests that training of development managers should stress leadership skills, including the ability to relate to subordinate staff and beneficiaries. It also underlines the need to develop "system managers" who can initiate structural

^{31/} See Theodore Smith, The Indonesian Bureaucracy (Unpublished dissertation, 1971).

^{32/} See In Search of Excellence (1983), The Art of Japanese Management (1982), and Theory Z (1981) and earlier works by Warren Bennis, Phillip Selznick, and Chester Barnard.

^{33/} See David Korten et al., op. cit.

adaptations, while eliciting broad commitment to the overall objectives of development programs.^{34/}

Organizational Structures and Practices (Structure)

2.21 The rapid growth of the bureaucracy after independence and of the economy during the 1970s, have permitted little time for systematic organizational development. Many organizations were created "by decrees," but had relatively little substantive capability.^{35/} This phenomenon was described by a leading Indonesian educator as being "over-organized and yet under-institutionalized." Impatience with the slow process of developing existing institutions and the strong preference for direct control have often encouraged the establishment of new organizations, and hence further fragmented the functions and resources of existing institutions. Organizational improvements are often limited to changes in formal structures, with little impact on the quality of actual decision making and other internal processes.

2.22 The organizational structure of most agencies and enterprises reflects the recent history of fast growth, the scarcity of managerial resources and the propensity toward centralized authority. Hence, it is common to observe relatively large organizations with a very narrow middle management link. The hierarchy is the dominant factor in all relations; this frustrates coordination and communication at lower levels which cut across vertical lines of authority.

2.23 The collective impact of environmental constraints and the lack of supportive infrastructure encourage a particular mode of task organization, called the center periphery or "hub-and-wheel" pattern of managerial organization (or communication).^{36/} Complex tasks are reduced to a set of rudimentary and specific instructions, which the central administrator or top manager can

^{34/} David Korten, op. cit. Also see World Bank, World Development Report, 1980.

^{35/} A contrast between the institutional development patterns of the institutes of administration of Indonesia (LAN) and Malaysia (INTAN) may illustrate this point. LAN was created with a comprehensive mandate and extensive authority over the management of civil service training, but did not acquire the necessary capacity and resources to fulfill this role, with consequent disappointments. By contrast, INTAN started with a limited program of activities and better cadre of highly-motivated full-time trainers, and built demand for its services by its demonstrated successes in priority tasks. While INTAN serves a civil service the size of which is one-tenth that of Indonesia's, its cadre of trainers and training materials exceeds LAN's.

^{36/} See Jon Moris, "The Transferability of Western Management Concepts and Programs, An east African Perspective," in Laurence Stifel et al, Education and Training for Public Sector Management in Developing Countries, Rockefeller Foundation, 1977.

then pass to each subordinate individually, each of whom knows little of the total task and bears only limited responsibility for the final product. This process does not require much lateral communication. The central administrator personally does all the managerial integration needed for the task completion. Subordinates seldom know whether and how their inputs contribute to the central manager's decision. Industrial production is often organized in the same pattern, even within large enterprises.

2.24 Research suggests that this pattern of task organization is perhaps the most efficient form for unstructured groups and simple tasks requiring mainly one-way communication.^{37/} It may also be inevitable where skills are scarce and very unevenly distributed. However, as a long term basis for task performance it has many weaknesses. All the experience, authority and satisfaction accrues to the center. The motivation and involvement of subordinates remain low. Moreover, planning and coordination skills remain personal; they are not institutionalized. This structure does not do well in large-scale activities, nor, in uncertain situations requiring two-way communication and adaptation. It may be one of the main factors contributing to low productivity in large organizations in Indonesia.

2.25 Although little research has been done on informal organizations, knowledgeable observers suggest that Indonesians, like other East Asian cultures, tend to feel uncomfortable in large, impersonal, formal organizations and seek comfort in patron-client ties and narrow social groupings. Informal groupings are particularly important as channels of information that either supplement or distort more formal lines of communication. They are also influential in setting members' values, goals, and perceptions. The need to sense unity and avoid open controversy often results in "side negotiations", intricate "avoidance" procedures, and the use of "trusted" outsiders as "go betweens". Tasks are organized and carried out fairly independently of formal structures and decision making processes at middle and senior level management seem to be ad-hoc. These practices place high demands on the average Indonesian manager and require integrative and process skills that are uncommon even in industrialized societies.

2.26 The intricacies of the informal organization and decision-making may appear non-rational and unintelligible to the outsider. Ceremonial articulation of the decision is often confused with the actual decision process. Indonesian managers are aware of the importance of the informal organization to the functioning of their organizations. However, this importance is neither adequately reflected in management research and education nor taken into account in the introduction of modern management systems.

2.27 Perhaps the most consequential aspect of organizational design practices is the rigidity of present organizational structures in the public sector and the centralized authority for any reorganizing within government departments. Line managers, particularly in the public sector, view organiza-

37/ H. J. Leavitt, Managerial Psychology, University of Chicago Press, 1964, pp. 228-41.

tional structures as relatively immutable. Partly in response to past abuses, the government has developed a relatively uniform structure for all government departments and agencies.^{38/} While this uniformity has the merit of simplicity and clarity, it has not accommodated the particular requirements of some departments, such as the need for chief engineers and other functional streams at technical departments such as Public Works. The Ministry of Administrative Reform has the authority for reorganization, but is limited by its capacity to experiment and evaluate alternative organizational designs. Meanwhile, the departmental units of Organization and Methods (O&M) are usually limited to passive administration of existing structures. Hence, there is little room for institutional managers to experiment with even marginal organizational changes.

Decision Making Practices and Support Systems (Systems)

2.28 Decision makers are concerned more with means, inputs, and budgets rules than with objectives, benefits and outputs. This results in weak management support systems, poor horizontal coordination, limited vertical communication, onerous reporting requirements, inadequate monitoring and evaluation, lack of performance-oriented budgeting, and planning which is short-term and rigid. This preoccupation reduces the operational autonomy of middle and lower level managers while overloading top management and displacing important managerial responsibilities such as the development of strategic controls and the clarification of institutional objectives. In contrast, research on outstanding organizations suggests that they emphasize the task of objective setting at all levels.^{39/}

2.29 There is a scarcity of managerial support systems partly reflecting the fact that central authorities design such systems to meet their own needs but seldom to build the problem solving capacity of lower levels of management. Thus, scarce managerial talent is wasted. Decision support systems are also underdeveloped as traditional managers tend to rely on personalized and intuitive styles of decision making.

2.30 There is relatively good horizontal coordination at senior management levels within each public agency but little below and among agencies. The more important factors contributing to weak horizontal coordination are the monetary incentives attached to line control over project budgets (and hence the tendency to segment projects into mini-projects with separate budgets for the various implementing agencies), the strong patron-client relationships, and the "hub-and-wheel" task organization. Weak coordination often

^{38/} For example, all ministries, DGs, and lower subdivisions can have only up to a maximum of 5 unit groupings (divisions). This follows the principles of the "span of control," regardless of the diversity, complexity and interdependence of the tasks within a unit.

^{39/} A clear statement of objectives gives a manager the means of developing himself and measuring his contributions to the organizations. See Drucker, Management, Harper's College Press, New York, 1977.

results in fragmentation and duplication in programs and overlapping functions among agencies. Funds, directives, information, and reports flow up and down individual chains of command in segregated channels. Only a few people outside each vertical chain, such as ministers or governors, have the status and authority to ensure coordination among agencies.

2.31 Upward Communication systems are underdeveloped. As a predominately "oral culture", Indonesians indicate a strong preference for oral over written communication. Communication systems (and institutional memory) remain highly personalized and informal. Such communication patterns maintain a "personal touch" and carry messages in subtle ways; however, they are inadequate for large bureaucracies, where substantial information processing is needed at different levels of aggregation for different levels of management. Lacking such systems, large organizations tend to be slow in learning, and in responding and adapting to environmental change and feedback.

2.32 Several ministries have established a series of sequential weekly meetings, starting with the Minister, going all the way down to section heads. These meetings are intended to transmit information from the Minister to the working level, to receive the reports of subordinates on task accomplishments and problems, and to resolve differences. This series of meetings provides an excellent forum for downward flow of information. However, it appears that problems are often raised and settled outside the formal meeting in dyad or small group encounters. Introduction of the information in the formal meeting could thus be for formal purposes only. Similarly, problems are not usually brought into these meetings that do not have prior clearance. Information is sifted out and aggregated in such a manner as to minimize any potential embarrassment for the reporting unit.

2.33 Reporting systems are usually voluminous and overlapping and their benefits are often not commensurate with the administrative burden involved. They are seldom designed to highlight options for decision making. Lower level managers see little benefit from such reports since superiors are too burdened to pay attention to them and if they do, it would be for detailed control purposes rather than guidance and support. Lower level staff seldom participate in the design of information and reporting systems, and hence have no opportunity to make them relevant to their own decision making needs. There is an impressive amount of orderly collection and recording of data at the lowest levels of the organization but its potential for decision making is not tapped adequately.

2.34 Information on performance is not shared within or among government agencies. Supervision and evaluation are interpreted in a narrow way, "according to the letter of the law", and performance is evaluated against compliance with the rules rather than achievement of objectives. The absence of meaningful and reliable performance indicators reduces accountability, efficiency and institutional learning. In contrast, research demonstrates the importance of appropriate evaluation and wide dissemination of information on performance to

ensure responsiveness to the intended beneficiaries and public accountability and ultimately, to develop effective decision making systems.^{40/}

2.35 The budgetary process has a fundamental impact on many aspects of decision making in Indonesia. Annual budget authorizations for development projects are prepared in detail. Lacking criteria for measuring performance, accountability is limited to budget utilization. Development problems are viewed in terms of specific, isolated and short-term (one year) budget interventions. In this context, it is exceedingly difficult to get managers to think in terms of policies, strategies and plans to address development problems. Budgeting is seldom viewed as a management tool that would link desired results to available means, communicate priorities and set standards for performance.

2.36 Planning is fairly mechanistic as past trends are merely extended into the future. This may partly reflect a cultural orientation which emphasizes the past. For many departments and enterprises, planning means little more than preparing an annual budget, which is seen as a legal and binding document. Managers thus fail to see the benefits of longer term planning as a guide to daily decisions or future opportunities. Under such circumstances, decision making becomes myopic or reactive.

2.37 An important strength of Indonesian tradition is its emphasis on defining the problem before deciding on a solution or implementation. What may seem to outsiders a slow process of extensive discussion is often a necessary period for building consensus across agencies which can greatly facilitate subsequent decisions and implementation. This process is usually viewed as similar to the "ringi" process in Japanese organizations. Both emphasize cooperation, compromise, harmony and collective decision making. There seems to be one main difference between the two processes, however. The "ringi" process initiates proposals and reaches consensus from the "bottom-up"; this amounts to de facto decentralization of the task without decentralization of formal decision-making authority. The "mushawarah" and "muafakat" process in Indonesia seems to rely more on peer consensus at the top, following which decisions are passed down through the hierarchy.

Personnel Practices (Skills)

2.38 The "father figure" role assigned to superiors and group cohesiveness have interesting implications for personnel practices. The relationship between employer and employee is not purely economic but also moral and interpersonal. Entrepreneurs have strong obligations towards their relatives, as evidenced in many family-owned businesses in Indonesia. Moreover personal contacts take precedence over functional or market relationships. Transactions in the traditional sectors are based not only on market relations but also on stable connections between suppliers and customers, built on personal trust over time. The relationship between superiors and subordinates is one

^{40/} An example of the use of information to improve decision making is in the Indonesian family planning program (paras. 2.73-2.74).

of specific mutual loyalty, often leading to "patronage." These patterns are a potential source of strength, which could be used to build a "humanistic" management style. On the other hand they are also a potential source of abuse of power, and a hindrance to the establishment of merit-based personnel policies.

2.39 Task assignments and the utilization of human resources are highly dependent on management style and level of trust superiors have in their subordinates. When job descriptions and division of labor remain unclear, subordinates' functions are solely determined on the superior's perception. In general, when a superior trusts a subordinate, he rewards him with many tasks and frequent contact. Subordinates are not expected to provide advice unless asked. The question of professional competence is one for the superior to determine and not for the subordinate to assert.

2.40 Among the most important problem areas in current personnel practices are the weak incentives for outstanding performance and full-time commitment to a job, and the inadequate attention given to the systematic development of managers. In practice, promotion in the civil service depends almost exclusively on personal loyalty and seniority. Since basic salaries are low, civil servants generate adequate incomes only by dividing their time among many jobs and institutions. The administration of benefits becomes an intricate and cumbersome process, subject to the arbitrary authority of the immediate superior. Career planning and professional staff development systems are also at a very early stage of development in public and private organizations. Career paths are fairly short and agency specific. These practices are particularly inadequate to the professionalization and development of management.

2.41 There is a growing conviction among progressive executives, particularly in the private sector, that the above personnel practices limit the effective utilization of manpower and stunt professional growth. Such practices have tended to encourage conformity and conservatism, while discouraging individual and group responsibility. While these practices may have been necessary to maintain harmony and relative stability, the challenge now is to adapt them to promote the entrepreneurship, innovation and performance necessary for the future environment. This is particularly critical for the managerial cadre.

2.42 Recent research has emphasized that the single most important determinant of an organization's performance is its staff (especially managerial and professional), their skills and motivation.^{41/} In general, the ingredients of successful personnel policies in modern organizations include: opportunities for taking initiative and assuming responsibility, positive reinforcement through a variety of incentives, and information on comparative productivity for self-evaluation and peer comparison.

41/ See In Search of Excellence and the Art of Japanese Management, op.cit.

2.43 It might be useful to highlight the need to take cultural factors into account in designing personnel policies. For example, it is difficult to foster individual initiative if peer pressures are against competition. On the other hand, group-oriented behavior and symbolism might be incorporated into the design of personnel policies, using non-material incentives and rewarding team performance. Obviously, reforms are difficult and experimentation is necessary but improvements are possible. Indonesia's Family Planning Program demonstrates that appropriately adapted personnel incentives can be devised and can contribute substantially to program success (para. 2.73-2.74).

Orientation to Market, Service and Environment (Strategy)

2.44 Managerial practices have tended to create inward looking and less responsive organizations. There are many examples to illustrate this orientation and its consequences. Within the bureaucracy, there is a tendency to take the user or beneficiary for granted. In health services, there is a dearth of information about the users' needs and preferences, and about constraints to access or effective usage. There is little research or monitoring of target group behavior. Departmental service units, such as training, tend to compete with line functions or program units for resources and their programs are seldom evaluated from the user's viewpoint. Industrial extension services and other public programs to support business are designed with minimal input from the intended beneficiaries. Such programs seldom include monitoring and evaluation components or channels to ensure feedback, without which government agencies are unlikely to understand or respond to the needs of businesses.

2.45 To varying degrees, the lack of an environmental or marketing orientation is common to all bureaucracies. In contrast with enterprise management, performance criteria for public management are less clear; clientele are generally unsophisticated, and the demand for services may be difficult to mobilize. Moreover, traditional public administration education and research have tended to look at the structure and efficiency of organizations quite apart from the process of implementation and "marketing" of public goods and services. However, strategies for the delivery and utilization of public services can be as important as their production. This is particularly true in Indonesia, with its extremely heterogeneous regions and cultural groups and geographical spread.

2.46 Enterprise managers, particularly in the public sector, exhibit similar attitudes towards marketing.^{42/} They are more inclined to measure production levels, costs, and short-term profits than quality, optimum pricing, and long-term growth prospects. Standards for services, quality and reliability tend to be poor. Public enterprises, in particular, have weak incentives for quality and service. They are unlikely to adopt aggressive or innovative marketing. For example, state banks seldom develop their natural

^{42/} The very small enterprises may present an interesting exception, since the small entrepreneur is keenly aware of the needs of his particular niche and is intimately close to his customer.

markets by seeking out the average customer. In manufacturing enterprises, marketing departments seldom provide user feedback to their design and production units. The potential for product improvement resulting from customer feedback remains unexploited.

2.47 Organizational learning through experimentation and systematic monitoring of the environment is relatively limited. This is manifested in the tendency towards conformity, blueprint planning, and the reluctance to engage in experimental programs. The expansion of small projects into national programs frequently involves the imposition of uniform designs and standards. There is little research on the implementation of on-going development programs; action research is almost unknown. Formal planning and implementation systems are not designed to handle uncertainties. Although development programs do change over time to meet new needs and respond to past implementation problems, feedback cycles relating to program redesign are often too long. Policy impact analysis is often neglected and there is a tendency to promulgate new regulations before their effect on management behavior and productivity is thoroughly thought out. Similar tendencies are prevalent in the enterprise sector.^{43/} Mechanisms to support experimentation are often neglected, particularly in the large public enterprises. The common ideal for business managers is a stable and protected market,^{44/} a proposition that is becoming less tenable in "the age of discontinuity".

2.48 The bureaucracy's introvertedness has significant implications for its relations with public and private enterprises, and voluntary and community organizations (Non-Government Organizations, NGOs). It precludes an effective partnership between the Government and the private sector. For example, despite the major role that the private sector plays in the delivery of education and health services, there is little analysis and even less systematic promotion of this role. Similarly, it limits the effectiveness of multi-agency programs such as watershed management and transmigration; these programs require managers to align the objectives and activities of their individual agencies to those of other agencies and local organizations. Finally, it distances local offices of central government agencies from their immediate environments and grass roots organizations. Regional offices of the central government see themselves more as extensions of headquarters and less as providers of local services. The more than 30,000 branches of the Agricultural Bank (BRI, the People's Bank) throughout the country are viewed more as administrative channels or post offices than as local commercial institutions.

2.49 While ambitious development programs and excessive regulations may have overloaded the public sector, administrators are nevertheless reluctant to delegate or share the burden with the private sector and NGOs. Some administrators view non-government organizations as competitors for the

^{43/} Again, small enterprises present the exception as they strive to create new services and to protect their niches.

^{44/} See Peter Drucker, The Age of Discontinuity (1969) and Managing in Turbulent Times (1980).

loyalty of the community. The inward orientation of the bureaucracy further presents the danger that the bureaucracy would expand in a way that would displace rather than support non-bureaucratic institutions and community organizations. This would be unfortunate since Indonesia is endowed with many potentially viable (but often fragile) grass-roots organizations such as water user associations, cooperatives and credit societies.

2.50 Recent research suggests organizational requirements that are common to social sector programs.^{45/} These include planning and decision making systems that are based on adequate knowledge of the beneficiaries and their environment, and means to ensure the strengthening of local staff and community for needs identification and service delivery. Research also suggests the need to break down barriers to collaborative action and develop linkages among interdependent institutions, particularly in addressing poverty problems.

2.51 Similarly, recent findings suggest that the most successful corporations maintain close involvement with their customers in product (service) development, support experimentation, and more generally, develop a rich set of interactions with the environment.^{46/} Their managers emphasize commitment and incentives for quality, maintaining a long-term view of service, tailoring services to specific needs, and generally, listening to and working with the users. The most innovative organizations are those who understand their customers' needs.

D. Dominant Organizational Configurations

2.52 Organizations in Indonesia tend to cluster around two predominant configurations, the simple structure and the machine bureaucracy.^{47/} The simple structure is dominant among enterprises in Indonesia. It is characterized by the use of direct supervision as the prime coordinating mechanism. Decision making is centralized in the hands of the chief executive. Support systems, and financial controls tend to be rudimentary. Strategy formulation is highly intuitive and centralized. There are no "staff" units (technostructure), little specialization and only an insignificant middle management.

2.53 While many enterprises throughout the world assume this simple structure during their formative years, most private sector Indonesian enterprises characterized by their small scale, young age and owner-management,

^{45/} See, for example, Bureaucracy and the Poor, op. cit.

^{46/} See, for example, "In Search for Excellence".

^{47/} For detailed background on research on these structural configurations and others see Henry Mintzberg, the Structure or Organizations, Prentice-Hall, Englewood Cliffs, 1979. Other contributors to research in this area include Joan Woodward (1965) and Burns and Stalker (1966).

typically maintain this structure indefinitely. During crisis periods this structure may be most efficient in effecting urgent reforms.

2.54 The simple structure has both strengths and weaknesses. Under certain conditions this structure provides flexibility and adaptability, a sense of mission and adequate coordination. It is compatible with available entrepreneurial talents and low skilled labor forces.^{48/} On the negative side, the simple structure is risky, hinging on the survival and whims of the top man. As organizations grow in size and their tasks are diversified (while maintaining their simple structure), excessive centralization could lead to rigidity and slow response, and to confusion between strategic and operational issues. The simple structure becomes a liability when the chief executive is not ready for structural change. Most craft and small entrepreneurial organizations fail to make the transition that growth requires; the "span of control" of their chief executive usually increases to the point of overload and thus the enterprise fails to grow or survive.

2.55 The machine (control) bureaucracy is the common feature of the civil service and most large public enterprises. The dominant features of this structure are: standardization of work processes; fragmentation of tasks; proliferation of regulations and formal reporting; centralized power for decision making; and detailed operational planning. Middle line managers are preoccupied with enforcing rules and procedures and disseminating instructions down-the-line. Senior managers and the central guidance agencies are primarily concerned with devising effective controls and fine tuning the machinery.

2.56 This structure has proved a natural fit to the conditions that prevailed since independence: a strong desire for economic development together with a very large but unskilled bureaucracy to carry out most of this task. When a set of simple repetitive tasks must be performed on a very large scale and in a very stable environment, the machine bureaucracy seems to be the most efficient structure. Several disadvantages of this structure seem to be emerging, however. First, it does not mobilize and develop its human resources effectively. It generates morale problems at the lower levels. Second, it pushes coordination problems up the hierarchy and leaves little room for lower level managers for communication and mutual adjustment among agencies. Third, it causes adaptation problems for top management since information passes through many layers, with major losses due to aggregation and intentional distortion. Top management becomes overloaded with details to the detriment of strategic planning.

^{48/} Its potential contribution to overall structural flexibility of the economy could be enhanced if larger enterprises (including large public enterprises) were to develop subcontracting and trade arrangements with small scale enterprises. Similar structural flexibility could be gained if the bureaucracy was to link itself to NGOs. The Nucleus Estate-Smallholder (NES) model is an example of successful Indonesian structural innovation which builds on the strength of both small and large enterprises.

2.57 Some qualification must be made to the above characterization. The machine bureaucracy seems to be an ideal to which many senior Indonesian managers aspire to increase order, ensure accountability and reduce variability and uncertainty in performance. The realities of large public sector organizations often fall short of this ideal, however. Controls tend to be more apparent than real; regulations are often vague and, when they encounter resistance, are left unenforced. The proliferation of controls and the over-burdening of top managers often result in "leakage of authority", and "coordination from below." While managers control choice making, they (de facto) have much less control over the information gatherers, their advisors, the authorizers above him, and the executors below.^{49/} Thus, while managers strive to centralize and maximize formal controls, they often operate with poor information and support systems in an uncertain environment over which they have little control.

2.58 Additional factors also seem to moderate the realization of a machine-like bureaucracy. First, informal organizations and cultural norms tend to promote treating people as "persons" rather than "means" and to modify the strictly hierarchical structure of the machine bureaucracy. Second, top managers usually succeed in changing the machine bureaucracy by reverting temporarily to the more flexible simple structure in times of crisis. Moreover, task forces and project management units are often used to alleviate coordination problems in priority areas. Third, the bureaucracy is relatively young and its technostructure is small and hence rules and regulations are often not fully elaborated or enforced. Finally, the diversity of regional and ethnic groups is likely to moderate the desires of central administrators to perfect the machine features of the bureaucracy.

E. Public Sector Financial and Personnel Management

2.59 There are two public sector policy areas which have a pervasive impact on civil service and public enterprise management. These are: (a) planning, budgeting, monitoring and evaluation (financial resource management); and (b) civil service policies (human resource management).

2.60 During the early years of the New Order Government, systems were developed for both the annual budgeting and longer term, i.e. five year planning exercises. The primary concerns at that time were to establish economic stability, centralized control over public expenditures and methodologies for economic project appraisal for the then inexperienced and undisciplined implementing agencies. Overall, these systems introduced substantial financial accountability, and gradually implementing agencies began to improve their own detailed annual budgeting. As the number of pro-

^{49/} The decision process may be viewed as a number of steps: (a) collecting information; (b) processing and presenting of information as advice to the decision makers; (c) making the choice (determining what to be done); (d) authorizing the action, and (e) executing what is decided to be done.

jects increased (over tenfold in the last decade), pressures were built up for simplification, flexibility and decentralization of the annual budget and some improvements were introduced in 1979/80.

2.61 Similarly, some important civil service reforms were introduced during 1970s. These measures aimed at ameliorating the colonial legacy and the abuses of an earlier era: highly fragmented personnel systems, unskilled and underpaid staff, strong political patronage, and young and overstaffed bureaucracy. The size of the bureaucracy was reduced, and thereafter successfully controlled. Compensation was improved and partly rationalized. And policies were formulated for personnel management and the reorganization of ministries. The Government indicated its commitment to these reforms by creating the Ministry of Administrative Reform and by substantially increasing the authority of the National Planning Agency.

2.62 Nevertheless, the Government continues to be concerned with the performance problems of the civil service and with the effectiveness of public investment planning and implementation. The following section summarizes the most critical problems in managing the financial and human resources of the public sector, with particular emphasis on those policies that affect the deployment, performance and development of public managers.

Planning, Budgeting, Monitoring and Evaluation.

2.63 Financial management of Government agencies are characterized by the following problems:

- (a) despite the 1979/80 improvements, the annual budgetary process is still too complex, detailed, and project-oriented. This distracts senior managers' attention from the longer term objectives of program and institutional development. Medium term financial planning and investment programming and capacity for anticipation and adaptation thus remain underdeveloped.
- (b) A significant part of civil servants' income is funded through development projects; as a result, civil servants are preoccupied with generating projects out of routine functions, adding a considerable administrative burden in budgeting and excess paperwork. Moreover, this system has contributed to a substantial proliferation of special project management units, which has detracted institutional development efforts from the overall problems of the line departments;
- (c) Allocation of resources between routine and development budgets is heavily skewed to the latter. Incentives (including compensation) favor investments in new projects over routine expenditure (for effective utilization and maintenance of existing facilities). Foreign aid often reinforces this bias. This results in common shortages in critical inputs (drugs, educational materials and spare parts) and a lack of maintenance. However, there are encouraging signs to readdress the balance between routine and development expenditure starting by 1985 budget. The present distribution of the

- financial and managerial responsibility between the central and local governments often results in local governments not being given adequate funds for operation and maintenance. The short horizon of public expenditure planning precludes a systematic examination of recurrent cost implications of alternative project designs and program strategies.
- (d) Except for foreign-aided projects, project planning and appraisal systems are rudimentary and do not extend beyond the annual cycle. Most sectoral plans consist mainly of project lists, with little assessment of alternative sector strategies or broad priorities;
 - (e) For local governments, planning and budgeting is further complicated by the fragmented funding for most development projects.^{50/} Packaging funds from different sources, in order to carry out a single projects is unnecessarily time consuming and the subsequent administrative burden of accounting and reporting separately to each source is significant.
 - (f) With few exceptions (such as PLN), investment programs of large state enterprises are not subjected to comprehensive evaluation. Many issues regarding corporate strategy, financial management, and borrowing alternatives are not scrutinized, even in those enterprises that depend on the national budget for investment funds. Financial reporting by public enterprises (and their subsidiaries) is at an early stage of development. Government funding of public enterprises is decided on an annual basis and is seldom examined in the context of longer-term corporate strategies.
 - (g) Present systems for monitoring key indicators of economic performance, such as private investment, industrial and agricultural production and export, and import trends is fragmented, overlapping, and underdeveloped;^{51/}

50/ A series of studies of these budgetary systems for several sectors are contained in seven volumes under the title, Central-Local Financial Relations Review, by the Development Administration Group, University of Birmingham.

51/ The Government is planning an ambitious computerization program for the major national agencies to support planning activities. To avoid costly mistakes, it is advisable to promote consultations among these agencies and provide technical assistance to the national working group on automation of the state apparatus (BAKOTAN) to facilitate the technology transfer process.

- (h) Ex-post evaluation of public expenditures consist solely of checking against authorizations, yielding little useful information on how to maximize the impact of investments;^{52/}
- (i) The duplication, fragmentation and complexity of reporting systems often result in overloading field officers, distracting them from their primary tasks. Project officers often complain that they send many reports but receive only little and late feedback, if any. Proposals for new information and evaluation systems have tended to be overdesigned, usually by foreign consultants, without the involvement of managers who are actually going to use them;
- (j) Public managers seem unfamiliar and/or unconcerned with modern management information systems particularly those which might make the planning process more adaptive and responsive; this may partly stem from present preoccupation with detailed annual budgets and blue-print planning.

Civil Service Policies and Management

2.64 The following policy areas are constraining staff performance and development, in general, and managerial competence, in particular.^{53/}

- (a) despite past improvements pay scales are inadequate; a piece work payment system, designed to provide supplementary income has led to complex, superfluous and time consuming administrative procedures. Furthermore, inadequate remuneration encourages multiple job holding and the resulting "part-time" view of civil service employment undermines commitment to the job and the institution.
- (b) rigid assignment and transfer (across departments) policies reduce options for advancement, underutilize scarce skilled staff, and reduce the chance that managers will develop a broader view of public service;
- (c) the present civil service structure has no functional positions or career streams for specialists in key areas. This has a detrimental effect on civil service training programs (Chapter 3), and on the optimal use of scarce professional staff (e.g., accountants).

^{52/} The Ministry of Finance has established an implementation evaluation center recently with the technical assistance of HIID. This is the result of a successful experience with implementation research studies on four national development programs. These studies were carried out by HIID, in collaboration with some local universities.

^{53/} For details, see Donald Warwick, "Civil Service Reform in Indonesia, Problems and Possibility," HIID, 1978; and Clive Gray, "Civil Service Compensation in Indonesia," in Bulletin of Indonesia Economic Studies, Volume XV, No. 1, Australian National University, March 1979.

Relatedly, job descriptions are not adequately specific regarding professional and technical requirements, thus severely hindering the identification of training needs and career and manpower planning;

- (d) most civil servants have little formal education; about 90% have only a high school education and 3% have completed a university degree (Sarjana). Yet, compensation and promotion policies do not provide adequate incentives for improved performance which might generate demand for continuing education for civil servants.

2.65 One unique feature of civil service practice in Indonesia is that those who occupy certain managerial positions are recognized as "structural" or "echelon" staff. They receive a monthly "structural job" premium, which can reach an additional 100% of the position's salary. Similar "functional premium" applies to certain functional categories such as university teachers and judges. This may be seen as arbitrary and sometimes become a cause for discontent and low morale.

2.66 Existing civil service policies also generate particular problems for regional and local government where skill shortages are severe and promotion prospects limited. Although national policy encourages rotating central staff to regional postings, it is difficult to recruit high caliber staff to the regions, since many justifiably feel that such assignments may cause them to miss opportunities for career advancement, in the absence of a strong central assignment office and clear career development patterns.

2.67 The national civil service office (BAKN) and the personnel offices at the ministries and local governments tend to passively administer existing regulations. The status and career prospects of personnel administrators in both public and private enterprises are low; their policy analysis and manpower planning capabilities are very limited. Personnel development issues are commonly regarded as administrative matters rather than management concerns. Yet, there is considerable research which suggests that senior management should be actively involved in establishing their institutions' personnel philosophy and examining the managerial and personnel implications of national policies.^{54/} As a start, the policies governing the managerial cadres, usually the most expensive human resources in a developing society, may be given a first priority in future reforms.

F. Towards Improved Concepts and Practices

2.68 There are significant variations in management concepts and practices among managers of different ages, educational levels, ethnic groups, and experience. Many of these practices are changing, slowly but signifi-

^{54/} For experiences in other countries see, Selcuk Ozgediz, "Managing the Public Service in Developing Countries: Issues and Prospects", World Bank Staff Working Papers No. 583, 1983.

cantly. Some were a natural response to historical or cultural conditions. Others resulted from an earlier (and legitimate) preoccupation with national unity and stability, and the concern to prevent abuse of power. Many of these practices reflect the scarcity of managerial, technical and planning skills. While many of these practices may have been logical responses to historical conditions, they may not be optimal in the future.

2.69 Improved understanding of the prevailing attitudes and practices is a prerequisite to the formulation and appropriate use of more effective management systems and structures, management development policies, educational models and professional standards. Managers themselves should examine the problems and conditions under which they operate and search for possible remedies. Such self-examination should raise awareness of the need to improve present practices among thoughtful practitioners and their associations.

2.70 Collective attempts to improve managerial standards should be based on a "shared understanding" of common problems, and on systematic search for effective "home grown" managerial practices. Professional associations could assist in these efforts as well as in establishing and publicizing improved management standards. Such a process could broaden public support for the development of an effective managerial culture and could help internalize the new standards (provided by progressive and competent leaders) against which managers can measure their performance.

2.71 There is increasing concern among some Indonesian managers that a basic reassessment of traditional practices and imported models is necessary. Indonesia's growing awareness of management constraints is the result not only of accelerated changes in the environment and the demands for structural adjustments, but also of changes in the perceptions of Indonesian managers and their expectations about the future. The continued success of Indonesia's development efforts will increasingly depend on whether its leadership and management cadre can lead the process of institutional change, including the improvement of otherwise outdated managerial practices.

G. Development Programs Management: Lessons of Success

2.72 Thus far, this chapter has focussed on factors which determine or hinder management performance and development. However, obstacles are by no means insuperable, as demonstrated by two highly successful Indonesian development programs, the Family Planning Program and INPRES. Both these programs were carefully conceived and have been very capably managed by Indonesians for some years. These programs provide models of excellence in their strategic management, decentralized and evolving structures, performance-based decision making, orientation to clients' needs, and their ability to learn from their own experiences.

2.73 Indonesia's Family Planning Program is regarded as one of the most successful population programs in the world.^{55/} Much of this success stems from its reliance on decentralized initiative, careful progress reporting and adaptation over time. From its inception, it has enjoyed strong political support. Its coverage and targets have been realistically phased over time. Its management has combined central guidance, relative autonomy from the bureaucracy and decentralized implementation.

2.74 The program illustrates the importance of advanced planning, effective monitoring and quick feedback. A computerized central data system monitors program performance on the supply of contraceptives. The head of the Family Planning Board (BKKBN), the ministers and provincial governors are collectively responsible to the President for achieving overall program targets. But actual implementation is primarily delegated to local staff and community leaders. In Bali, the traditional community council has been harnessed to promote program objectives. Similarly, traditional local herb vendors have supplied contraceptives to remote villages and urban areas. The program is thus designed to give credit for success to local managers, to tailor means to local needs, and to foster local initiatives and experimentation.

2.75 INPRES programs, particularly INPRES Kabupaten (decentralized funding to district governments for simple infrastructure rehabilitation and development projects),^{56/} have successfully improved rural infrastructure and helped to meet national targets for delivery of basic needs (rural roads, schools, health centers), thus distributing development benefits and generating employment. Perhaps more importantly, these programs have had a significant impact on the administrative development of local governments. In contrast to most development projects in Indonesia, which have been financed and implemented directly by the central departments, INPRES programs have relied primarily on provincial, district and village efforts for project identification, planning, and implementation. INPRES Kabupaten, in particular, has shaped and developed the administrative and technical capacities of district level agencies in rehabilitating roads, irrigation, and other rural infrastructure. Projects have been small and simple, thus matching planning and implementation requirements with skills at the lowest administrative levels. Centralized financial controls have been combined with decentralized decision making. Funding and implementation procedures have been designed to support, but not replace, local efforts. Procedures and community needs have been updated annually. Such progress may now permit even more decentralized

^{55/} World Bank, World Development Report, 1980, and Samuel Paul, Managing Development Programs: Lessos of Success, op. cit.

^{56/} For a detailed description assessment of INPRES Kabupaten, see R.A. Richards, "The Kabupaten Program and Administrative Reform", INDONESIA, Cornell University, 1978.

control of these programs to match the growing administrative capacity and expectations of local governments.^{57/}

2.76 Some important lessons, can be drawn from the experience of these two programs. First, they have both evolved over time, and only diversified (INPRES) and expanded (Family Planning) as local capacities were developed. Procedures of INPRES programs have permitted flexible adaptation to local conditions. Their decentralized structures were responsive to the diversity and uncertainty of their environment and to the need for beneficiary participation. Future institutional and management development assistance might consider incorporating similar learning and experimental approaches to test different administrative tools, and to promote innovation.

2.77 Second, the small size, and simple design and implementation procedures of projects under the INPRES programs allowed maximum delegation and participation by local governments and hence intensified learning at the local levels. Under these circumstances, management development and training could be combined with "learning by doing" and could become a primary responsibility of local implementing organizations. Planning and implementation systems thus evolved in conjunction with and in support of local capabilities. This process could be accelerated if public administration training could become more field- and action-oriented and thus reflect the diversity of regional needs and the field conditions faced by local managers (Chapter 7).

2.78 Third, the Family Planning program has developed management systems and personnel policies that have encouraged the entrepreneurial talents of public managers. Among the more effective aspects of these policies have been improved management information systems, decentralization, setting clear objectives, timely reporting and feedback to local managers on key performance indicators, and public recognition of outstanding performance.^{58/}

2.79 Fourth, for people-oriented programs, there is a particular need to simplify management tasks and to promote community learning and client-orientation. In these two instances, local governments' capability to supervise

^{57/} There are still many lessons to be uncovered from research on implementation of these programs. INPRES Sekolah Dasar (for elementary schools) has successfully constructed a massive number of schools throughout the country and in a relatively short period. Less is known, however, about the qualitative aspects of program success. One common implementation problem arises as a result of sharply divided responsibilities between the central and local governments for the construction and operational phases, and for funding different educational functions. Similar problems are observed in INPRES Puskesmas (community health centers), as well as in many infrastructure projects (e.g. water supply enterprises) where construction is carried out by contractors or the central government and then handed over to local government for operation and maintenance.

^{58/} For details on some of these principles, see World Development Reports, World Bank, 1980 and 1983.

contractors (INPRES Kabupaten), and the participation of local private enterprises and traditional institutions (family planning) facilitated this process.

2.80 The lessons from these two programs suggest the need to strengthen the research capabilities of planning agencies and management education institutions. Multidisciplinary research on implementation issues could provide valuable lessons for designing future programs and improving the performance of on-going programs. It could also provide a better basis for identifying management development needs and for preparing local case studies for management education.

H. Future Challenges

2.81 Indonesia's development prospects depend to a significant degree on improving its managerial systems and skills in the shortest possible time. Keeping pace with a rapidly changing international environment and ensuring adequate domestic growth in employment and incomes will require certain transformations in its economic structure and institutions.

2.82 Future development is likely to depend not so much on the overall level of investment as on how investment is used, on the efficient use of national resources and on the identification and exploitation of new sources of growth.^{59/} The future flow of external capital (including official aid) to developing countries is unlikely to increase. Meanwhile, the evolution of the world oil market remains uncertain. The Indonesian Government is fully aware of the implications of these changes on its economy, and has initiated major structural adjustment policies.^{60/} Investment programs have to be carefully managed, investments in human resource development and regional and social equity have to be protected, and program implementation has to accelerate. With increasing financial constraints facing the public sector, the private sector will be called upon to play a larger role in development, including capital formation and program implementation. Public enterprises will have to improve their operational efficiency, to generate adequate surpluses for their own investment programs. Financial institutions will have to play a more effective role in mobilizing and allocating domestic resources, in a less regulated environment. Trade policies will have to be reformed to stimulate efficient industrial production and competitive non-oil exports, especially in manufactured goods. These policies will have to be accompanied by changes in attitudes and practices, in technologies and skills, in systems and procedures, and in managers' capacity to adapt and exploit new opportunities.

^{59/} During the 1970s, growth performance in most developing countries was more closely related to efficiency of investment than to rates of investment (background research for the World Development Report, 1983).

^{60/} For details see: Indonesian Policies and Prospects for Economic Growth and Transformation, World Bank 1984.

2.83 The development of Indonesia's manufacturing sector will face stiff competition from several very dynamic neighboring Asian countries. The relatively easy stage of import substitution (in consumer goods), supported by high protection and subsidized capital, has now been fully exploited. Firms should now be forced to compete in domestic and export markets without the aid of subsidies and trade barriers. This will require new management tools and organizations, more advanced technologies, a better educated and trained workforce, and highly professional management, able to identify and create new markets and to shift resources quickly towards these new opportunities. There will be a need for continuous reassessment of competitiveness and comparative advantage, thus placing more emphasis on developing strategic and entrepreneurial planning and adaptive and learning systems. Accelerated change and competition will require continuing education, retraining and planned on-the-job experience for all staff, but especially for managers.

2.84 A competitive industrial sector implies new capabilities and relationships between Government and business. There will be a need for enhanced capacity to formulate national strategies that emphasize international competitiveness, to evolve coherent policy frameworks, to target assistance and promotion to promising technologies and industries, and to actively adjust and transform the economy.^{61/} Future business leaders should be trained and selected for their role in guiding innovation and shaping national priorities. Government would seek to promote market forces. Incentives should be devised to encourage employers to invest in staff development; such staff should then be allowed and rewarded for exercising more initiative and responsibility. Efforts to promote small business development and industrialization will require a responsive bureaucracy. There will be a need for new organizational arrangements to bridge the gap between government agencies and business culture, to facilitate active adjustment and encourage the emergence of new enterprises. Similarly, there will be a need for public forums and institutions which would be capable of generating broad consensus about business role, economic transformation and bureaucratic adaptation.

2.85 Technological change is likely to accelerate, generating new threats and opportunities for managers and imposing new pressures for adaptation. Information technology, and the possibility of linking the satellite communication system to the growing network of computers across the country could generate new options for both centralization and decentralization of different aspects of development programs and businesses. Modern data processing capabilities and deregulation of financial institutions are already causing a major revolution in financial services in many countries, including Indonesia. Advanced production systems will accelerate the development of large and complex organizations which, in turn, will require complex managerial skills and systems. Modern technology is likely to generate a change in the composition of the work force, with a higher proportion of managers and specialists. Demand for skills in research and development of new products, processes and

^{61/} For a discussion of global changes and a provocative program for economic renewal, see Robert B. Reich, The Next American Frontier, Times Books, 1983.

services will increase. These changes will require managers who are versed in technology. They will also require managerial practices that stimulate innovation and entrepreneurship and seek staff commitment and involvement as the key to productivity and quality improvements.^{62/}

2.86 Management education is at present not sufficiently responsive to these challenges. Demand for qualified managers has been increasing and is likely to accelerate. Unless the supply of managers is substantially increased, turnover rates of senior executives will increase (already a widespread phenomenon in Indonesia), and domestic companies, public and private, will probably lose their best talents to the multinational and joint ventures. Senior public administrators and promising young managers with professional training may leave the public service for the private sector; this may delay human resource development programs. Apart from aggregate supply, the education system does not provide adequate opportunity to combine technical and managerial skills. Engineering and technology schools generally have almost no management content in their curricula. Meanwhile, industry is not yet adequately involved in management and technical training or applied research. First hand exposure to good management practices is at a premium. Yet, only few enterprises have initiated their own management development systems.

2.87 As with their counterparts in business, managers of public service institutions will encounter increasingly complex tasks, including poverty alleviation, employment generation, human resource development, and the development of the Other Islands. Meeting these objectives will require policy analysis and planning frameworks that are sensitive to the beneficiaries and the diverse conditions of various islands.^{63/} New management technologies to ensure incorporation of community inputs to the bureaucracy's decision process and the development of local leadership should be devised.^{64/} Project design and budgeting processes will need to be sufficiently flexible and location-specific to allow action to be guided by the preferences and knowledge of the intended beneficiaries. Government agencies may need to be restructured over time in ways that would make it possible for their staff to facilitate, rather than supplant the development of the capacity (for choice and action) of the communities they serve. Programs requiring inputs from several agencies will

^{62/} This is the basic philosophy behind the Quality Circle and productivity movement in Japan. It is also reflected in the managerial style of what William Quchi called "Type Z Companies" in the USA. In Sweden, a school is created to teach entrepreneurship to employees as well as corporate managers, with the idea of reversing the inertia in many large organizations by developing the inside entrepreneur.

^{63/} For examples of these planning frameworks and managerial technologies see: David Korten and Felipe Alfonso, Bureaucracy and the Poor, op. cit.

^{64/} Such as publishing information on the performance of cooperatives, public enterprises, schools, hospitals and public programs, and making this information accessible to the local communities served.

need to develop linkages to ensure coordination. Incentives and evaluation systems also need to be reoriented to measure results (rather than activities), to incorporate accountability to the beneficiaries, to give explicit recognition to successful capacity building within the communities they serve, and to improve public access to information on performance.

2.88 The above demands suggest that public managers and development institutions regard the beneficiaries not simply as passive consumers of services, but as another resource to be mobilized. They should constantly assess the environment for resources that they can harness for their programs and spot opportunities for mutually profitable linkages with other agencies. The role of middle level managers (local administrators) will need to be redefined and upgraded. The skills and orientations of public managers will need to be developed to promote entrepreneurial and service perspectives and to increase their ability to collaborate with other organizations. The role of management development institutions would be to help senior managers and local leaders better understand the nature of this new leadership role. Management institutes would also work directly with agencies engaged in making their own structural changes in response to future challenges. Finally, this role should not be limited to micro-institutional changes; it should promote and facilitate change in the overall managerial environment.

2.89 In summary, the future environment is expected to be less predictable (unstable), more complex and diverse, and increasingly competitive. Accelerated technological and market changes will contribute to uncertainties. New facilities and services will increase in complexity and sophistication (e.g., moving from expansion of basic education to higher education programs). Social and economic transformation will require increased diversity in public services, while further development of the Other Islands and integration of the domestic market will require differentiation of marketing and delivery strategies among regions. This future environment will require that the simple organizational structures of enterprises evolve into highly flexible production systems and corporate structures and that the machine bureaucracy become more professional and responsive.

2.90 Future challenges suggest that management development will be a critical dimension of Indonesia's development. Preparing managers and developing management systems to meet the challenges and accept the uncertainties of adaptation are central to policy reforms, institutional development and economic transformation. Moreover, they suggest an urgent need to reconceptualize the role of management in development. Fulfilling this role will require changes in managerial structures, systems, attitudes, skills and practices, and in the policies and institutions that determine their development and performance. Only through such mutually reinforcing interventions will sustainable changes be brought about.

CHAPTER III. CENTRAL GOVERNMENT MANAGEMENT DEVELOPMENT 65/

3.01 This chapter focuses on managing the human resources for the 17 departments and 26 agencies which constitute Indonesia's central government apparatus, their combined requirements for management education and training, and for administrative change. It assesses the magnitude of the government's management needs and examines the role and quality of in-service management training provided by the National Institute of Administration (LAN), and by the PUSDIKLATs, the training centers of the departments (ministries) and national agencies. Finally, the broad elements of a management development strategy are proposed. A detailed organizational development strategy for LAN is presented as an annex to this chapter (Volume III, Annex 3 to Chapter III).

A. Central Government Management Needs

3.02 The need for public sector management training is determined by the need for changes in prevailing practices and administrative systems (Chapter 2), the characteristics of the present stock of managers (to be discussed below,) and the quality and projected output of the education system (Chapter 7). The effective demand for quality management training is also influenced by national policies on training, their links to personnel policies and their integration with socio-economic strategies. Finally, effectiveness of training is influenced by the status of the personnel function, and the administrative culture of the government.

3.03 The central government plays a dominant role in directing development and investment activities in Indonesia. Public policy formulation is almost totally concentrated at this level. Most of the development budget is managed and implemented by the central departments, which also influence the production policies of public enterprises, and monitor local governments, the private sector, and cooperatives to ensure their compliance with relevant government policies.

3.04 Within the central government, there are approximately 3 million employees and 300,000 managers and supervisory staff, basically equivalent to Echelons I-V (top management to entry-level management/supervisory, respec-

65/ For detailed analysis of needs and recommendations, see following background papers to the study: Rolf Lynton "Management Development Programs in Central Ministries;" Robert Boynton, "The Role and Future of the National Institute of Public Administration;" Carlos Ramos, "Management Environment and Suggestions for Improvements with Special Reference to Infrastructure Ministries," and Inderjig Khanna, "Project and Program Management."

Table 1: The DISTRIBUTION OF ECHELON I, II, AND III MANAGERS
AMONG THE DEPARTMENTS, AGENCIES AND IN THE REGIONS

A. Departments

Institutions	Totals	Echelons					
		I		II		III	
		No.	%	No.	%	No.	%
1. Home Affairs	722	19	(2.6)	76	(10.5)	627	(86.8)
2. Foreign Affairs	248	15	(6.0)	43	(17.3)	190	(76.6)
3. Defense and Security	-	-	-	-	-	-	-
4. Justice	1,430	13	(0.1)	177	(8.2)	1,300	(90.0)
5. Information	749	14	(1.9)	70	(9.3)	665	(88.8)
6. Finance	955	17	(1.7)	126	(13.2)	812	(85.0)
7. Trade and Cooperatives	1,026	14	(1.4)	95	(9.3)	917	(89.4)
8. Agriculture	670	22	(3.3)	103	(15.4)	545	(81.3)
9. Industry	651	13	(2.0)	73	(11.2)	565	(86.8)
10. Mining and Energy	165	11	(6.7)	28	(17.0)	126	(76.4)
11. Public Works	279	11	(3.9)	44	(15.8)	224	(80.3)
12. Communications	781	16	(2.0)	97	(12.4)	668	(85.5)
13. Education and Culture	1,480	594	(40.1)	93	(6.3)	793	(53.6)
14. Health	1,004	13	(1.3)	117	(11.7)	874	(87.1)
15. Religion	735	113	(15.4)	60	(8.2)	562	(76.5)
16. Manpower and Transmigration	1,060	12	(1.1)	116	(10.9)	932	(87.9)
17. Social Affairs	389	12	(3.1)	56	(14.4)	321	(82.5)
<u>Total Departments</u>	<u>12,344</u>	<u>909</u>	<u>(7.4)</u>	<u>1,314</u>	<u>(10.6)</u>	<u>10,121</u>	<u>(82)</u>

B. National Agencies

1. State Secretariate	288	58	(20.1)	130	(45.1)	100	(34.7)
2. Sec. Of People's Assembly	21	2	(9.5)	5	(23.8)	14	(66.7)
3. Sec. of Supreme Advisory Council	33	1	(3.0)	9	(27.3)	23	(69.7)
4. Sec. of Parliament	51	2	(3.9)	6	(11.8)	43	(84.3)
5. Supreme Court	26	1	(3.8)	6	(23.1)	19	(73.1)
6. Attorney General	518	4	(0.8)	54	(10.4)	460	(88.8)
7. Financial Auditing Office	197	4	(2.0)	70	(35.5)	123	(62.4)
8. Agency for State Code	27	1	(3.7)	12	(44.4)	14	(51.9)
9. Civil Service Administration							
Agency (BAKN)	38	1	(2.6)	10	(26.3)	27	(71.1)
10. Nat. Inst. of Admn. (LAN)	46	1	(2.2)	9	(19.6)	36	(78.3)
11. Civil Aeronautics	9	-	(0.0)	2	(22.2)	7	(77.8)
12. Council on Telecomm.	6	1	(16.7)	2	(33.3)	3	(50.0)
13. Nat. Aeronautics Admin.	47	2	(4.3)	11	(23.4)	34	(72.3)
14. Intelligence Agency	97	2	(2.1)	28	(28.9)	67	(69.1)
15. Agency for Science and Technology	135	5	(3.7)	25	(18.5)	105	(77.8)
16. Atomic Energy Agency	60	3	(5.0)	9	(15.0)	48	(80.0)
17. Bureau of Statistics	65	4	(6.2)	9	(13.8)	52	(80.0)
18. National Planning Agency	38	6	(15.8)	26	(68.4)	6	(15.8)
19. National Archives	27	1	(3.7)	10	(37.0)	16	(59.3)
20. Survey and Mapping Agency	14	3	(21.4)	1	(7.1)	10	(71.4)
21. Family Planning Agency	478	6	(1.3)	43	(9.0)	429	(89.7)
22. Investment Agency	36	4	(10.5)	6	(15.8)	28	(73.7)
23. Council on Defense and Security	32	6	(18.8)	16	(50.0)	10	(31.3)
24. Agency for Development of Technology	44	2	(4.5)	7	(15.9)	35	(79.5)
25. Agency for Pancasila	21	5	(23.8)	7	(33.3)	9	(42.9)
26. Agency for Logistics	66	8	(12.1)	16	(24.2)	42	(63.6)
<u>Total Agencies:</u>	<u>2,422</u>	<u>133</u>	<u>(5.5)</u>	<u>529</u>	<u>(21.8)</u>	<u>1,760</u>	<u>(72.7)</u>

Source: Civil Service Administration Agency, September 1981.

tively) in the civil service categories.^{66/} Top and middle level managerial positions (Echelons I, II, and III) appear to be concentrated in a few agencies and central departments. Table 1 shows the distribution of these positions by institution and by level; Table 2 summarizes these data by departments, agencies and provinces. Echelon I includes 1,040 institutional and inter-institutional managers. Most of the 2,830 Echelon II managers are multi-program or major program managers. Echelon III includes 13,550 program and major project managers and supervisors of major administrative systems.

Table 2: DISTRIBUTION OF STRUCTURAL POSITIONS BY ECHELONS AND BY DEPARTMENTS, AGENCIES AND PROVINCES

Institutions	Totals		Echelons					
			I		II		III	
	No.	%	No.	%	No.	%	No.	%
Departments	12,344	74	909	7	1,314	11	10,121	82
Agencies	2,422	15	133	5	529	22	1,760	73
Provinces	1,861	11	-	0	198	10	1,671	90
<u>Totals</u>	<u>16,627</u>	<u>100</u>	<u>1,042</u>	<u>6</u>	<u>2,033</u>	<u>12</u>	<u>13,552</u>	<u>82</u>

Source: Table 1.

3.05 The combined Echelon I, II, and III positions represents 6% of the supervisory/managerial work force (1:18) and 0.6% of the total civilian government work force (1:156). The overall picture which emerges from these data is a very small managerial cadre supervising a very large government bureaucracy. The ratio of middle (Echelon III) to lower management (Echelons IV and V) at 1:22, is especially low, and contrasts with 1:8 (or less) in most industrialized countries. It suggests that middle management is thinly staffed, and that, under these conditions, adequate preparation for promotion to the rather different and strategic functions of top management is unlikely.

3.06 As Table I demonstrates, there are fairly wide variations among departments and agencies in the ratios of top to middle management (i.e. Echelons I and II to III). In general, the smaller central guidance agencies and non-departmental agencies show proportionately smaller ratios of top to middle management. In addition, those institutions with significant policy formulation/implementation roles (e.g. BAPPENAS, State Secretariat) appear to

^{66/} Inaccurate job descriptions and position classifications make it impossible to give a precise figure, See Annex 1 to this chapter for a detailed description of civil service categories, grading and promotion criteria.

possess a relatively higher top management ratio. The Department of Education and Culture shows by far the largest top management force presumably due to the large size of the department, the high grades of rectors, deans in universities, and the administrative nature of the sector.

3.07 Table 2 indicates that 90% of top and middle level management positions are within the central government. There are no Echelon I positions in the provinces, and most (90%) of top management positions of the provinces are at the lower middle management level (Echelon III). Even the top management positions in district governments command relatively low status and salaries by general government standards. Thus, senior managerial positions are concentrated within the central government.

3.08 An overwhelming managerial challenge confronts these central departments and agencies. The vast majority of managers and first-line supervisors (about 180,000) have had no university education. Among the remaining 120,000, only 83,000 have Bachelor's degrees or above, and physicians and educators make up one third of this group. Although there are broad prerequisites (educational level, training courses, experience) for public sector management positions, these have been established over time, and therefore have not been met uniformly by many senior practicing managers. ^{67/} A high proportion of managers at Echelons I and II are close to retirement. Thus promotion from Echelons II and III will be unusually heavy during the Sixth Five-Year Plan. Echelons III and below, particularly at local government levels, have the highest percentage of managers with relatively poor academic qualifications and no exposure to administrative and management training. Thus, many practicing managers in government service have never been exposed to basic management education.

3.09 Managerial skill shortages in the central government are as much qualitative as quantitative. The generally low quality of secondary education is compounded by the frequently poor quality of many post secondary programs. Many potential managers receive their higher education from one of over 100 departmental institutes and schools offering degree programs; the quality of these programs varies greatly and many have been openly criticized by informed administrators.

Patterns of Needs

3.10 The core agencies which together shape the regulatory environment and management systems for the overall economy share a similar pattern of managerial needs. These ministries and agencies are responsible for: development policy, administrative reform, policy analysis, interagency coordination, development supervision, and management of scientific, economic and administrative research; they include: the National Planning Agency (BAPPENAS); the coordinating Minister for Economy, Finance, Industry and

^{67/} For example, the average ages of directors of production and marketing in public agricultural estates is close to 50 and of the top managers, about 52 (in 1981); retirement age is 55.

Development Supervision (EKUIN); the Economic Cabinet; the Ministry of Finance (including the Central Bank); the Ministry for Administrative Reform (MENPAN); the National Civil Service Agency (BAKN); the Institute of Public Administration (LAN); the Central Bureau of Statistics (BBS); the Investment Coordinating Board (BKPM); and the National Institute of Sciences (LIPI).^{68/}

3.11 Many of these institutions need to improve their capacity for policy analysis, planning, monitoring and evaluation to match their expanding responsibilities in an increasingly complex economy. Most decisions are made by a few capable, but overburdened, policymakers and are often based on poor data. Management support systems are underdeveloped and decision processes tend to be ad hoc and highly personalized. Many authorized positions cannot be filled because of the shortage of staff competent in policy analysis and strategic planning; moreover, incentives and functional streams in these areas are inadequate.

3.12 Given the day-to-day pressures of government, top management tasks are often neglected. Perhaps with the exception of the Ministry of Finance, the core agencies do not appear to have paid adequate attention to developing their institutional capacity or managerial cadre. The likely future demands on these agencies will require a new generation of managers and staff who would be capable of strategic management of development programs in the context of an increasingly complex and demanding environment.

3.13 Technical departments and agencies face critical shortages in managerial staff. The management of technical organizations is expected to be carried out by professionals with both technical and managerial skills. However, organizations are often reluctant to deplete their scarce technical staff, who in any case, are not anxious to assume managerial positions which they perceive as outside their normal competence. Moreover, practicing technical staff rarely acquire any relevant experience that might prepare them for managerial responsibility. The technical departments therefore suffer simultaneously from a narrow management perspective and a loss of their most able technical staff to administrative responsibilities, for which they are not suited.

3.14 Management weaknesses in the social sectors (health, education and manpower, urban and rural development) are widespread. They are particularly apparent in poor operation and maintenance of physical facilities, and in low utilization and productivity. In addition, these "people-oriented" sectors require special managerial skills which are seldom recognized by present management education and training curricula. They also require more developed management systems at the lower and field levels. For example, the outcome of educational programs depends crucially on field managers, such as principals, supervisors and regional administrators and on decentralized decision making and various support systems. Yet, the management structure of the Ministry of Education is highly centralized, with only rudimentary skills at the middle

^{68/} For detailed descriptions of these organizations see background paper by D. Kayran.

and lower levels. The special management needs of these sectors require sensitivity to local culture and behavioral aspects that will ensure the involvement of ultimate beneficiaries and the relevance of the delivery system.

3.15 The demand for managers at all levels of Government will continue to grow for the foreseeable future. A long term health plan calls for an additional 48,000 health managers by the year 2000, or about 2,500 annually. The Ministry of Public Works has immediate plans to recruit 2,000 additional managers. Yet many existing managerial posts cannot be filled. Public works had over 400 vacancies for project managers in 1981, while it sought to recruit some 13,000 supervisors. Other ministries are in similar positions. Overall, the projected recruitment for management positions is estimated at 15% annually or about 45,000 managers. For top managers, a 20% rate is more realistic, in view of likely heavy losses to retirement in Echelons I and II in the next five years. The approximate distribution of this annual demand will be about 350 for top, 1,600 for middle, and 43,000 for lower and entry level managers.

3.16 The public service will face increasing competition for competent managers from the private sector, particularly for top level managers. Since the available pool of qualified management candidates is small, the only medium term alternative to direct recruitment is to develop the present cadre and prepare managers to assume higher responsibilities. The task of managing these human resources and of developing the managerial cadre is made even more difficult by the general absence in most government departments and agencies of any meaningful estimates of manpower requirements or assessment of training needs. Meanwhile, as the array of required managerial and technical skills evolves over time, in response to changes in development programs, the structure of the economy and technological advances, the lack of forward-looking systems for educational and manpower planning could be extremely costly.

3.17 In general, the Indonesian bureaucracy is not adequately supportive of management development nor does it effectively utilize training.^{69/} Training assignments are commonly viewed more as a prerequisite for promotion than an input to individual or organizational development. Promotion to managerial positions is frequently based on personal influence rather than merit. Newly trained individuals are seldom encouraged to apply their skills. The overall administrative culture and personnel policies are not performance oriented and hence do not stimulate a genuine demand for training.

69/ Recent studies document the decisive influence of "organizational climate" on training effectiveness. See for example, "Management Education, Company Climate and Innovation," Journal of General Management, No. 4, 1976/77, pp. 17-26. At Matsushita, training is a key top corporate function and in-service training is "a way of life" for all employees, especially managers (see The Art of Japanese Management).

B. The National Institute of Administration (LAN)

3.18 LAN is the leading institution for public administration training.^{70/} With a broad mandate to provide standards for management training in all government agencies, LAN engages in a variety of training activities. LAN prescribes departmental training requirements and supervises administrative training by the larger departments and agencies. For the smaller departments and agencies without the resources for independent management programs, LAN provides this training directly. LAN staff are frequently seconded to departmental training centers to conduct specific programs. LAN is expected to review all departmental training plans and activities. LAN also offers undergraduate and graduate public administration degrees.

3.19 LAN's principal activity so far has been the provision of management training to senior government staff. In this regard, it has developed a four-tiered program, SESPAs, the Administrative Staff College, for upper management; SEPADYA, for Upper Middle Management; SEPALA, for Lower Middle Management and SEPADA, for Supervisors. As Table 3 indicates, the total hours of instruction and their administrative content increases with the higher levels of management. At present, LAN offers an "Inter-departmental SESPAs" and delegates to the various departments the authority to conduct SESPAs, with the "guidance and pattern" provided by LAN. The other lower tiers are offered by the departmental training centers, with some participation of LAN's training staff. Participants for these programs are selected from civil servants currently in grades which would make them eligible for promotion to one of the five supervisory or managerial echelons. Course content focuses on information relevant to passing the required grade promotion examinations.

3.20 As a result of LAN's efforts, government departments and agencies have begun to focus on management concerns, including the need for training, although the level of commitment varies among departments. However, there is considerable scope for improving LAN's operations, and making training more relevant to the particular needs of a given department.

3.21 LAN's organization of training programs along hierarchical lines coinciding with the structural positions of managers (Echelons I to V), rather than by subject matter or other sectoral criteria is problematic in several important respects. There is considerable duplication in the curricula among the four programs. Perhaps because of this, the overall program requires an excessive amount of training (2,100 hours, or more than a man-year). Yet, it does not reach the top level (Echelon I) and offers relatively limited training opportunities for first-line managers or supervisors. Curricula stress formal descriptive knowledge relevant for promotion examinations, but give little attention to developing skills or attitudes relevant to a given

^{70/} LAN is discussed in greater detail in Annex 3 to this chapter. Another background paper by Ragaa Makharita "LAN: Five-Year Development Plan, 1979-84" has examined detailed plans for LAN in greater depth, based on existing organizational structure and strategy.

department, whose primary needs are therefore not met. The course content is too theoretical and often irrelevant to common practical administrative problems. The training programs deal with sectoral distinctions in management environments and activities only in a cursory way and do not integrate the functional or technical material with the more general administrative concepts. Project and program management and field conditions are seldom addressed. General bureaucratic and managerial procedures (such as principles of organization, organization and methods (O&M) services, and personnel administration) are heavily emphasized, while significant topics such as the political, sociological, and behavioral aspects of public management are virtually ignored. Moreover, recent developments in the public administration field such as policy analysis, organization development and information systems are not adequately reflected in the curricula.

3.22 Perhaps the most fundamental criticism of LAN is its limited capacity to produce noticeable results. This is partly a consequence of courses which do not emphasize practical and relevant issues. Moreover, LAN's staff, already overcommitted, cannot spend much time in follow-up activities, which might otherwise help to make future programs more relevant. There is a recent commitment however to change this situation with the appointment of the new chairman of LAN.

Table 3: LAN-APPROVED MANAGEMENT TRAINING FOR STRUCTURAL POSITIONS BY EFFORTS, LEVELS OF PARTICIPANT AND TOTAL HOURS OF GENERAL VS. DEPARTMENT-ORIENTED INSTRUCTIONS

Type of Training	Level of Participant		% of instruction		Hours of instruction	
	(Grade) Current	(Echelon) Eligible	Adminis- trative	Functional	Adminis- trative	Functional
SESPA /a	IVa-IVd	II	100	-	(810)/e	900-(90)/e
SEPADYA/b	IIIx-IVv	III	80	20	400	100
SEPALA/c	IIIa-IIIId	IV	70	30	280	120
SEPADA/d	IIc-IIIb	V	60	40	180	120
TOTALS					1,760 (1,670)/e	340 (430)/e

/a SESPA = Administrative Staff College.

/b SEPADYA = School of Upper Middle Managers.

/c SEPALA = School of Lower Middle Managers.

/d SEPADA = School of Supervisors.

/e SESPA's offered by the departments may contain 10 percent of departmental material.

Source: LAN and mission estimates.

3.23 LAN also provides advisory (research) services to the government on administrative development, and management consultancy services to public agencies and enterprises. These are by far the weakest aspects of its operations.^{71/} However, the pressing need for strengthening these capabilities within the government may stimulate LAN's improvement in these areas.

C. Departmental and Agency Training Programs

3.24 All departments and most agencies have training centers, PUSDIKLATS,^{72/} where administrative and management training programs are conducted, along with other (mainly technical) training programs. Management programs within these centers were organized into the same four-tiered structure as LAN's training programs.

3.25 In 1981-82 the Government's total training budget was some Rp 17 billion, of which only 3% was allocated for management and supervisory training. This is disproportionate given that 10% of the service is comprised of managers and supervisors, many of whom have very inadequate pre-service preparation in managerial skills. In 1980-81, about 2,630 individuals participated in 78 courses for a total of 660 manyears of training. In addition, it is estimated that more than twice as many individuals participated in the shorter technical and administrative courses offered by the departments and agencies. How does this level of effort relate to the total training requirements of the civil service? Estimating the total instruction at 800 manyears for supervision and management, and some 300,000 individuals requiring training, the average training per manager was only 0.6 days per year or 3 days in every 5 years training cycle. This seems inadequate for Indonesia's civil service in its present stage of development.^{73/}

3.26 Even at this modest level of training there are wide variations in the amount and type of management training offered by different departments and agencies. Some have fairly specialized programs (office administration, statistics); others offer only very general courses; and still others offer no

^{71/} Annex 3 to this chapter analyzes the reasons for the underdeveloped state of these functions with LAN.

^{72/} Four of the larger departments have elevated the training function to the level of a Directorate General, where training centers are called BADAN DIKLATS.

^{73/} Although no comparable data exist for other developing countries, examples of other norms or indicators may illustrate the point. In the US and Japan, nearly 25% of the federal public employees receive training every year, despite their relatively mature and slow growing civil service. All IBM managers get at least 40 hours of mandatory training a year, in which the major emphasis is on issues of "people management".

management training at all. This discrepancy implies that the importance attached to management issues, and, by implication, performance standards in general, differs markedly from one department to another. In some departments performance levels are relatively well defined and formally accepted; in others, social relationships (and "networking") seem to provide the principal basis for recognition and reward. In general, the infrastructure and technical departments appear to be more performance oriented than the social and human resource departments.

3.27 There appears to be considerable scope for strengthening the PUSDIKLATs' organization and operations. Most PUSDIKLATs come under a department's general administrative services division or are independent divisions similar to other line functions. They have no link with other personnel management functions and no coordination with other organizational development efforts. Neither the staff of PUSDIKLATs, the personnel offices or the O&M units of central departments seem equipped to plan human resource development or managerial career paths. With few exceptions, departmental training centers are poorly financed and managed.

3.28 Most PUSDIKLATs, like LAN, tend to organize their courses along hierarchical, rather than functional, lines. This tends to dilute the relevance of most courses to the participants and their departments.

3.29 The PUSDIKLATs tend to program their annual training cycle in relative isolation of their clients. The proposed program is usually based on management training programs mandated by LAN, some vague ideas about skill needs, and continuation of last year's programs. Detailed itemized budgets are prepared for each course, through which approval of these courses, usually through the development budget, is sought. The identification of the Ministry's priority needs and the gap between such needs and present skill levels generally receives much less emphasis. Requests for new courses are not usually articulated sufficiently and often are presented with such urgency that the PUSDIKLAT is forced to short-change any possible interactive process with its clients. Management within the Ministry and LAN usually react to the proposed program in a formalistic way, and the budgets are negotiated and finally approved with little examination of the objectives and the means of these programs.

3.30 Most training programs suffer from a number of deficiencies due to their dependence on project financing. They tend to emphasize formal classroom courses since these are the easiest to cost and budget for and usually include supplemental income for trainers. In addition, training is treated as a discrete and "temporary" rather than an ongoing activity. To accommodate part-time instruction by multiple specialists, courses are often fragmented, repetitive, and superficial. Most of these "travelling" instructors deliver set lectures, with little adaptation to the participants or departments. The demands of their other jobs take precedence over proper educational practices such as pre-class preparation, demonstration, action learning methods, adaptation to participants' skills and needs, and course evaluation and follow-up.

3.31 Some promising management training programs have been introduced on a project basis with financing from foreign aid agencies.^{74/} These projects attempt to introduce new training methodologies, materials and concepts with the assistance of foreign consultants. They could provide important vehicles for experimentation and adaptation and could contribute to training materials and case development for wider replication. However, institutionalization of these programs is constrained by the overall civil service policies and incentives influencing training.

3.32 These departmental centers have small staffs. In the absence of functional positions and career ladders, trainers in the civil service are organized along administrative lines, and generally consider themselves primarily administrators. In fact, many of the staff are not qualified to be trainers. Given the estimated training needs of their present staff and the likely annual recruitment over the next five years, the PUSDIKLATS need about 1,700 full-time management trainers, compared to an estimated 240 part-time staff at present.^{75/}

3.33 The shorter courses conducted within the line divisions themselves seldom look to the PUSDIKLATS for trainers, but rather to their own practicing technical/managerial staff. While this system has certain advantages, (e.g. a strong practical focus), these courses are deprived of qualified trainers who would be effective communicators and aware of necessary preparation and follow-up activities.

3.34 Appropriate training materials are in short supply. Most materials used have been developed by outsiders and funded by development projects with little attempt to adapt them to Indonesia's specific requirements. Even under exceptional circumstances, where teaching materials were developed under foreign-aided projects, their full potential is often lost due to inadequate dissemination,^{76/} budgeting and other follow-up measures after project completion. Moreover, monetary rewards for producing or translating training materials are very low. And finally, there is very little evaluation of training programs or participants' performances in such programs. This condition is the direct consequence of goals and objectives not being clearly stated, and not relating the selection of participants to any specific objective.

^{74/} Such as USAID-assisted management training programs for managers in seven large central departments and for trainers for local government training centers.

^{75/} For details, see Annex 2 to this chapter.

^{76/} Training manuals were developed under Bank-assisted projects for LAN. Regrettably, no local funding was provided for translation and dissemination of the manuals after project "completion".

3.35 The total cost of training public administrators has grown substantially during 1970s and has already become quite large. Budget allocations for this purpose cover only a fraction of the total cost, which is subsumed under project budgets. When the participant's salaries, training stipends, forgone income from other jobs, and allowances are included, the total annual cost of training would be about 10 times greater than the training budget (or about \$15 million, 1981 prices).^{77/} Even more revealing is that trainees' costs (total incomes of managers) are about 15 to 20 times the trainers' costs. This suggests that substantial salary increases for good full-time professional trainers might be the most cost effective way to economize on the training time for managers, the scarcest resource.

3.36 In summary, the training activities carried out within the departments and agencies do not meet the needs of these institutions for educated and trained supervisors and managers. The training centers are limited by the low priority given to their activities, by a lack of central planning and financing of training, and by a lack of full-time qualified and motivated instructors. Without the latter, there is little hope for ever developing effective training programs.

D. Strategy for Management Development for Central Government Departments and Agencies

3.37 The broad elements of the proposed strategy are: improvement of government-wide training policies and related personnel planning and management systems; organizational development of LAN including the development of its administrative research and management consultancy services and strengthening management training programs by the central departments and national agencies. With a new leadership and recent reorientation, LAN seems ready for substantial organizational development effort to lead the process of reform in civil service training.

3.38 Policy improvements should aim at coherent planning for public management development, mechanisms for inter-agency guidance of this process, a data base on skill requirements, and incentives for improving the quality and relevance of in-service training. The Ministry of Administrative Reform, MENPAN, assisted by BAKN and LAN, may guide the process of reforming training policies. They might be assisted by a council comprised of representatives from the major departments and agencies, which could also help to disseminate successful innovations and comparative experiences in developing and implementing training programs (see para. 8.05). The commitment of government officials and line managers to management development programs may be enhanced by well designed study tours to neighboring countries with successful experiences. Training policies and programs should become an integral component of government economic policies (e.g., export promotion drive), social development strategy (e.g., the expansion of education and health facilities, the

^{77/} For details, see background paper by Rolf Lynton, op. cit.

development of the Eastern and Outer Islands) and administrative reforms (e.g., administrative decentralization).

3.39 It will be crucial to provide full-time positions and career ladders for management trainers. A core staff of trainers/consultants should be developed through augmented programs for advanced training, including study abroad. The budgeting process for training should be reformed to ensure continuity in funding for training programs. The most successful management development programs that have been established on an ad hoc basis in several departments (usually with foreign assistance) should be institutionalized. Research is needed to clarify the tasks and training requirements for administrators. LAN, in collaboration with selected departments may initiate studies to identify the specific needs of managers in various positions and departments. Incentives for research and preparation of Indonesian training materials on public administration should be strengthened as a high priority.

3.40 LAN should concentrate its direct training activities on in-service public administration training, for senior level staff (i.e., the Staff College); otherwise, its training function should be limited to advice and guidance. In addition, it should develop its capacity for management consultancy and administrative policy research. LAN may focus on areas that are beyond the scope of an individual department but are crucial to government-wide performance. This would require research into Indonesian management practices, including implementation successes and failures. LAN may develop the channels necessary for publishing and disseminating management cases, research, and teaching materials as widely as possible, regardless of whether such materials are developed in-house or by other departments. LAN should also ensure that relevant departments, agencies and universities participate in such research activities. In promoting more effective management of training and particularly of management training, LAN might initially work with a few departments to improve systematically both the design and delivery of their management development programs. These programs should serve as models for other departments and agencies. LAN's direct management training may then focus on multi-level and inter-sectoral programs, and on top executive (Echelons I and II) development programs. Finally, LAN's training and policy advisory roles can be effective only to the extent they are coupled with its consultancy and research activities. Its leadership would be also enhanced by contributing more effectively to the planning and evaluation of public administration training in the central departments and agencies.

3.41 A realistic strategy for LAN should balance its major role in public administration education with the increasing public sector demands for administrative research and advisory services. This strategy should also assess LAN's ability to serve these needs vis-a-vis the M&M and R&D centers of the central departments and agencies, especially those of BAKN and the Ministry of Administrative Reform, with LAN playing a coordinating role. Accordingly, LAN should be given the resources, incentives, and autonomy necessary to build up its corps of researchers and consultants (see Annex 3 to Chapter 3).

3.42 As it devolves its present responsibilities for direct training (except for top executives) and graduate education in public administration, LAN can gradually build its capacity for management consultancy and adminis-

trative research. LAN's research and consultancy should focus on those areas which would contribute to the development of its training function, the trainers and teaching materials. It may reorganize its structure, programs, and research funding so as to benefit from interaction of training, consultancy and research activities and establish adequate continuity and coherence of its administrative research and services. To avoid duplication and establish a core of research expertise, LAN may also concentrate on the institutional and managerial implications of the government's new development policies and regulations, and avoid undertaking substantive policy reform of a technical nature. A selective approach to LAN's future development in this area is more likely to be viable in ensuring quality research and advice and in building effective demand for its services.

3.43 Other options for building a central capacity for administrative research and consultancy services may be considered by the Government. While LAN appears to be the obvious choice, given its mandate and core staff, this role may prove counterproductive to its training responsibilities. Administrative research and consultancy services may lead, invariably, to criticism of existing structures and systems and to changes that are painful, if not threatening to incumbents. To protect its cooperative and mutually beneficial relationship with government agencies, LAN may have to employ other means (e.g., staff exchanges, joint-research projects, etc.) to keep itself informed about management practices and institutional developments. Under this option the Ministry of Administrative Reform may develop this consultancy capability directly for the civil service. LAN may still develop certain research and consultancy capability in areas where conflicts with its primary role are not likely to arise. Finally, while a central capacity may be necessary for formulating comprehensive administrative reforms and for economizing on the limited professional resources in this area, there is a need to build gradually some capacity for systems and organizational development within the major departments themselves, perhaps within their O&M, training, or R&D centers.

3.44 Intensive development of management training programs at the central departments and agencies may start with a few departments (such as Education and Finance) in order to test new organizational arrangements and teaching methods. This training should include all the managers who are relevant to key performance areas. It should also build a critical mass of trainers and managers in the selected departments; this would enable managers and trainers to create an organizational climate that would sustain the new norms and performance standards. As indicated above, LAN may play an advisory role in this process. The broad lines of change would require departmental training centers to become top management's arm for executive development. Each department should undertake an assessment of its critical management needs and plan the training center's activities accordingly. Then, trainers may be recruited and/or trained to formulate and implement these activities; their functional positions should be ensured. Line managers should be involved in the process of identifying needs, evaluating training and encouraging trainees to use their new skills and experiences. The emphasis of training programs should be on expanding on-the-job and near-the-job management development opportunities.

3.45 In pursuing the above strategy, the complementarity between managerial and technical training, between formal training and on-the-job experience, and between training and other institutional development activities should all be taken into account.

3.46 Technical and managerial training should be viewed as complementary. The appropriate combination will vary from one department to another and should be based on skill gap analysis.^{78/} The existing pattern suggests that both pre-service education and in-service training tend to focus on early specialization and narrow technical training, and to neglect the managerial dimension. This pattern reinforces fragmentation of activities and segregates concerns of the various organizational units within departments from one another. Managerial training should also be adapted to the technical and contextual conditions of various sectors. To be effective, such synthesized technical-managerial training should be accompanied by careful trainee selection schemes and systematic organizational and manpower development programs to assure the fullest utilization of the human resources thereby generated.

3.47 In the field of management, formal training must be accompanied by structured learning experiences, on-the-job and in various noncourse contexts. The active involvement of superiors in the development of their subordinates cannot be overemphasized. The combination of formal training and programmed on-the-job experience will vary according to the findings of skill gap analysis and the nature of change in development tasks. It should be also tailored to the immediate responsibilities and career objectives of the trainees.

3.48 For management development to have the fullest impact on institutional growth, it should be integrated with other elements of an organizational strategy. Hence, institutional development should combine organizational and systems improvement with training activities. Trainers and their professional associations and institutions should be involved in management consultancy and research activities relevant to their organizational problems.

^{78/} An application of "skill gap analysis" technique to one Directorate General within the Ministry of Education suggests that managers tend to have educational background in their substantive areas (in this case, as teachers) but lack educational background and experience in planning and management, particularly at the sector and subsector levels. For details on the application of skill gap analysis and its results for the Ministry of Education, see Skill Profile Analysis for Management Training, LAN, IBRD/UN Project, 1979.

CHAPTER IV. LOCAL GOVERNMENT MANAGEMENT

A. The Administrative Environment ^{79/}

4.01 Regional government operates at four levels in Indonesia: provinces (of which there are 27), regencies/municipalities (of which there are 245 and 49 respectively), subdistricts (3,500) and villages (58,000).^{80/} The Ministry of Home Affairs (MHA) within the central government has overall supervisory responsibility for provincial and local governments. Except for the subdistricts, these levels are partially "autonomous" in that they have some law-making powers (subject to approval of the next higher authority), they have their own budgets and can levy certain taxes and charges. At each level there is an administrative head who is both chief executive of the regional authority and representative of the central government with coordinating powers for all government services. Each chief executive is assisted by a secretariat. Since 1980, the responsibilities and staffs of provincial secretariats have been expanded to keep pace with the general growth in provincial responsibilities and to strengthen their developmental capabilities, especially in the areas of regional and rural development, infrastructure development, production planning and population and environmental management.

4.02 Provincial and local governments have been major, though regulated, actors in the achievement of national integration. Along with the growth in government development programs has come an increasingly heavy implementation burden for local administrations. Despite the stated intention to decentralize authority, the central government continues to exercise fairly tight control over lower level administrations. Investment programs, although implemented at the local level, are highly directed and planned in considerable detail with specific quantitative targets, by central ministries. For implementation purposes, these programs are disaggregated into a very large number of component projects whose execution involves the whole hierarchy of local government agencies.

4.03 There appears to be a growing consensus that the size of the government's development program has now outstripped the capacity of central ministries to prescribe, design and manage individual projects. This explains the development of programs like INPRES ^{81/} which emphasize local diagnosis and project selection within broad central guidelines. There is also a growing awareness that highly centralized planning and management puts a severe strain on the morale and loyalty of local officials.

^{79/} For details, see background papers to the study on local Government Management Training by Kenneth Davey, G.W. Glentworth, and P.N. Mawhood.

^{80/} Annex 1 to this chapter describes the system of provincial administration in detail.

^{81/} See Annex 1 to this chapter.

The Quality of Regional Management

4.04 What is the quality of local government's managerial capability? Given the size of Indonesia, the complexity of regional governments and the inherent difficulties of measuring quality, we can only give some broad judgments.^{82/}

4.05 Firstly, the managerial capacity of local government is severely underestimated. A system which has built schools for 15 million children in 9 years, and which has initiated and successfully carried out, in Jakarta, the world's largest slum improvement program, is not lacking in drive or administrative skill. Central bureaucrats always have a vested interest in under-rating their regional counterparts; provincial level officials are just as critical of regency capacity as central civil servants are about the provinces.

4.06 Secondly, although the professional manpower situation in local government is still deficient, it has improved significantly over the past decade.

4.07 Thirdly, much of this professional capacity, particularly at the regency level, is severely underutilized or misdirected. Regency level veterinary officers, for example, typically have only enough vaccines, travel expenses, etc. to occupy them for a fraction of the year. Some development activities such as the Provincial Development Program (PDP) have generally gone well because qualified staff have welcomed the rare opportunity to utilize their skills fully. The widely held view that local governments have more money that they can spend is often related to bottlenecks in a province's BAPPEDA (Planning Board), to the limited capacity of the construction industry, or to rigid central procedures.

4.08 Fourthly, professional and technical staff are very dependent upon the arbitrary personal preferences of those who allocate funds, i.e. normally the governors or the chairman of the BAPPEDA. For instance, a doctor can only repair his community health centers if the district officer is interested in medical services.

4.09 Finally, much of what is classed as local mismanagement is really due to factors beyond the control of local managers. For example:

- (a) in order to ensure timely implementation of small local infrastructure projects there is a stipulation that only 10% of an INPRES project budget may be carried over to the next fiscal year; sometimes, however, local agencies do not receive funds until almost half the budget year has passed, which can lead to inadequate design and testing prior to implementation. This happens particularly in road projects where design, soil testing and material selection is often hastily and inadequately done;

^{82/} These are based upon surveys which have covered seven major sectors and included visits to 21 provinces.

- (b) the proliferation of projects, arising partly from the remuneration system, substantially inflates the paperwork associated with design, appraisal and execution, causing major bottlenecks;
- (c) the process of financial authorization is too elaborate; detailed estimates of expenditure are authorized in the budget, for example, and then reproduced in various forms that go backwards and forwards between operating departments and central bureaus;
- (d) higher levels of government prefer to finance specific projects (rather than block grants or program subsidies to local governments), thereby retaining control over both planning and execution of essentially local schemes. As a result, projects are often designed and contractors controlled far from the field site; and
- (e) funds, directives, authorizations, and requests travel over vast physical distances. Central government officials travel widely in the provinces, and provincial officials spend much time in Jakarta. Long chains of command undoubtedly distort messages, and problems of physical supply can be acute; the frequent insistence on central procurement exacerbates the situation.

4.10 The conclusion is clear. More or better management training can help to improve the effectiveness, the self-confidence and the image of local government staff. But it is unrealistic to expect that it will be a sufficient solution to the managerial problems of local government. More fundamental problems relate to the centralized yet fragmented funding system within which local government operates, the complexity of the procedures imposed upon local officials, the distortions of the remuneration system and the very unpredictable and personalized style of regional leadership.

B. Management Training Needs of Provincial and Local Administrations

4.11 Provincial staff fall into four categories: administrative staff, managers of technical agencies, planning staff (mainly BAPPEDA) and financial management staff. There are approximately 400,000 regional civil servants (excluding primary school teachers) of whom (very roughly) 30,000 could be classed as managers/supervisors. Provincial staff must devote much of their time to routine or regulatory tasks, which depend largely on technical capacities in the sense of carrying out set procedures, transferring land titles, vaccinating cattle, collecting taxes, etc. Even so, management skills are involved in budgeting, supervising, balancing workloads, and maintaining good relations with the clientele. Detailed specifications of the training needs of such a large and diverse group is impossible in this report. However, a few priority issues are discussed below.

4.12 Lateral Communications. The fragmentation and vertical compartmentalism of Indonesian administration suggests the need to improve lateral communication between agencies. The content of training courses should stress integrative processes and overall regional development program performance -

mutual awareness, exchange of information, and willingness to collaborate and consider joint action. The membership of a given course should, whenever possible, represent a range of agencies and/or hierarchical positions within the same region to broaden managers' understanding of their own and other agencies and thus promote local communication.

4.13 Management of New Programs. Implementation of development programs is increasingly dependent on the joint performance of several agencies. Multi-agency training courses or seminars should be set up whenever a new program is launched which involves such inter-agency, or inter-level cooperation, e.g. a new INPRES program, a geographical extension of the PDP, or a new transmigration settlement. At present, when such training is given, it is often limited to the line agency with primary responsibility, excluding other interested or potentially involved agencies. Proposed courses would not only explain the purposes and procedures of the program, but would also permit participants to discuss its implications for them and to indicate what outside resources and cooperation they might need.

4.14 Management Techniques. Adapted and simplified management techniques could prove valuable to regional staff. For example, development of bar-charting techniques could be useful in establishing realistic timetables for project design and execution. Most staff would gain from some grounding in statistical analysis; the objective, however, should not be to teach people how to estimate correlations, but to introduce them to the existing range of relevant data (e.g., the census, the agricultural census, the SUSINAS survey) and to explain how to use these data most profitably.

4.15 Planning and Budgeting of Maintenance. Maintenance is greatly neglected. There has been a huge expansion of infrastructure (roads, drains, irrigation, health centers, schools, etc.) but it is deteriorating for want of regular maintenance. Training is needed in how to cost and program a regular cycle of maintenance, and incorporate this into the budgeting of funds and staff time.

4.16 Developmental Diagnosis and Project Selection. Techniques in planning, budgeting and project analysis should be viewed as tools within the larger context of the regional management. Training courses should develop the ability to diagnose major trends in the local environment, to assess the needs of various target groups, and to identify appropriate development opportunities. Such training would be valuable, not only for the planning staff of BAPPEDA, but also for the administrative cadre, which allocates locally disposable funds, and for the local heads of technical agencies to broaden their perspective and sensitize them to the costs and benefits of alternative investments. Training in formal cost-benefit analysis should be limited to planning staff, but the whole managerial group needs some grounding in the concept of cost-effectiveness and in the need to take a long term view of expenditure.

4.17 Advocacy and Local Leadership. The Indonesian style of administration puts a premium upon the skills of advocacy. Few officials have the full resources at their disposal to independently carry out their tasks or ideas: selling one's proposal to the governor, the BAPPEDA, the director general, the

development banks and then to the farmers, the chamber of commerce or the cooperative, is an essential and continuous task. This puts such a premium on skills in communications and advocacy that they need heavy emphasis in training of all kinds. Local administrators also need to acquire the necessary skills for engaging local communities and beneficiaries in the development and delivery of local services.

4.18 Educational Backgrounds. Training needs to be adjusted to the specific educational backgrounds of participant groups and the level of development of local administration in various regions. In some cases, training will have to include remedial coverage to compensate for previous educational deficiencies, which may detract from the primary training objectives in the short run. Also the greatest volume of training may have to be available in the least developed and more remote provinces, and at the regency and lower levels where deficiencies may be most marked.

C. Supply of Management Training for Provincial and Local Administrations

4.19 This discussion focusses on in-service administrative training of regional management staff grouped according to the institutions supplying it:

- (a) Ministry of Home Affairs and provincial administration;
- (b) Other government departments.

Management Training Provided by MHA and Provincial Administrations

4.20 Cadre Training - APDN and IIP. The main program to train the cadre of generalists holding political or administrative authority in regional government takes place on two successive levels - the lower level Akademi Pemerintahan Dalam Negri, or APDN, and the higher level Institute Ilmu Pemerintahan, or IIP. Together these two institutes accommodate only a very small and select group of regional government staff. Both institutes offer degrees; while these are not recognized by the Ministry of Education, since few if any of these graduates will ever leave provincial service, this is not an important factor. Competition for entry into these programs is very keen, since, despite the lack of an accredited degree, participants have a much greater chance of eventual promotion to the top ranks of provincial service than do their colleagues without such training. In fact, for certain posts, at or below the subdistrict level, by ministerial instruction, priority should be given to APDN graduates.

4.21 APDNs, located in virtually all provinces, recruit promising candidates from within the service,^{83/} especially from officials working at the regency level or below. The 3-1/2 year program focuses mainly on general subjects of government and public administration. In addition, specialized Akademi Agraria also exists in some provinces, providing training in the survey, valuation and allocation of land for officials of MHA's Directorate General Agraria; these are technical rather than management-oriented. While no comprehensive data are available, it appears that the failure rate in APDN's is relatively low, 10-20% in some cases, near zero in others. Curricula at all APDNs are standardized by MHA, with only minor local variations - e.g., teaching of the Sundanese language at Bandung. Subjects tend to be treated in a legal or descriptive fashion, and fragmented into numerous small components. The training focuses upon administering an existing system, rather than adapting it to deal with changing demands. Library materials are old and rarely used. There is only limited treatment of development questions or practical problems arising from local administrative work such as family planning, public health, education and housing. A particular gap in the curriculum is the lack of any comparative study of local administration in other countries. The local administrators and the directors of APDNs themselves, should be allowed more flexibility in deciding what is taught.

4.22 Teaching staff at the APDNs are mainly generalists with Bachelors' degrees or below. Part-time guest lecturers are brought in from government and universities to teach the wide range of technical subjects - estimated at 52 - in the curriculum. The status of full-time APDN staff, apart from the directors, is unsatisfactory. Like other trainers elsewhere in government service, they possess no career structure or specific promotion arrangements. Their own access to training is limited to an occasional place at LAN for a one month "training-of-trainers" program, or a short special subject course at a university. Training places could be increased even under the present system, but only if the regional budget paid for them and regional budgets allocate very minimal funds for staff training.^{84/}

4.23 The IIP located, in Jakarta, gives a two year program (Bachelor's equivalent) to senior level provincial administrators. A minor and irregular activity is to provide short courses (5 weeks) for chief executives of regencies/municipalities and BAPPEDA chairmen.

4.24 Intakes for the two year course are allocated between provincial government and central departments. Many entrants are APDN graduates. About 40% at present are sub-district officers (i.e. head of third tier provincial units); the remainder come mainly from the regency/municipality level. A majority of students are in their early 30s, and very few are women - only 25 out of the 1,100 now in residence.

^{83/} The Pontianak APDN recruits virtually all of its entrants directly from school or university; thus it is more properly regarded as post-entry, but pre-service.

^{84/} Estimated at less than 1% of the provincial budget.

4.25 The IIP is organized into six teaching departments: government, administration, politics, land, development administration and local finance. The curriculum is controlled by MHA and is revised every three years. The core subjects of government, administration and politics run throughout the program and there appears to be considerable duplication of such material. As with APDN, subjects are taught in a legalistic or descriptive way and are divided into numerous small components. There is less of a practical or problem-solving emphasis than at the APDNs; staff take the view that making the course too practical would sacrifice its academic quality. Although the course is appropriate for the administrator's legitimate task of regulating many aspects of society, it does not address issues of change and development, which require sensitivity to local demands and assessment of constraints and opportunities.

4.26 The teaching staff, mostly with university degrees, have little access to in-service training themselves, and promotions are slow. Only the rector is in Echelon I, and the vice rector and the secretary are Echelon II. Most activities are considered covered by the basic salaries and IIP staff have relatively little chance of earning additional fees. In addition to about 40 full-time staff, there are typically 70-80 part-time guest lecturers on each course for technical instruction.

4.27 SELAPUTDAs. There are five local government in-service training schools of general administration (SELAPUTDAs) throughout the country. While they exist only above the provincial level, they are not properly regional centers since their coverage is not comprehensive or targeted to contiguous provinces. The Kalimantan provinces for example do not have a SELAPUTDA, but rely on access to the ones in Java. All SELAPUTDAs are controlled by MHA, and because of their administrative location they tend to be somewhat isolated from regional administrations.

4.28 SELAPUTDAs are primarily intended for training regency/municipality staff, but this practice varies considerably from one school to another, as do the size, the level of activity, the number of courses, and the quality of instruction. While a potentially significant source of management training, SELAPUTDAs at present are somewhat of a hybrid and would require considerable investment and upgrading to fulfill this potential.

4.29 At present, the most active and best run of these schools is the one at Yogyakarta. It offers three month general management courses for middle level regency/municipality staff (which qualify participants for possible promotion); three and nine month courses in economic and social planning (the nine month course includes six months on-the-job experience) for BAPPEDA staff; special three month courses in financial administration for officials in less developed areas (which are particularly job focussed), and 2-week orientation courses in planning for non-BAPPEDA staff.

4.30 The general management courses, which represent the main activity of the Yogyakarta SELAPUTDA, discuss management in a broad sense: general administration courses, including finance and personnel, and a functional element developed by MHA, covering various areas of government activity which has been developed by MHA. Only about 15% of the course time is allocated to dis-

cussion, seminars and field projects. Curricula could be improved by greater responsiveness to local needs and a larger element of practicality. Moreover, the library requires substantial improving.

4.31 Most of the teaching staff at the SELAPUTDAs have Bachelors' degrees, but no access to further training themselves. Most have had one year of service in a subdistrict. Teachers have no career development plan, salary levels are relatively low, and promotion prospects and outside incomes quite limited. The SELAPUTDAs lack instructors with economics, engineering, planning and other technical backgrounds.

4.32 SELAPUTDAs have the potential for providing far more training for middle and lower management in regional administrations. Courses not specifically related to qualifying for promotion, e.g. program design and practical economics, could strengthen the local administrations' capacity for planning and coordination.

4.33 Other Provincial/MHA Management Training Three other training sources deserve a brief mention. Most provinces maintain a PUSDIKLAT, i.e. a local training center funded from their own budgets. These are not recognized by the central government as training centers, but rather, are "shell" institutions usually amounting to a building, with some boarding facilities. They are designed to respond to small current demands and, as such, maintain no permanent teaching staff.

4.34 BAPPEDA sponsors a number of courses for its staff. Training concentrates mainly on planning; however, as attention focuses more on implementation, management issues are becoming more important.

4.35 Finally the in-house training center for MHA, its BADAN DIKLAT, located in Jakarta, occupies a central role in the organization of all types of training for MHA staff, including regional and BAPPEDA staff. It has considerable potential for stimulating training in management and planning. The study team however has considerable reservation about conducting training and designing curricula for regional consumption in Jakarta; rather it feels that the best role for BADAN DIKLAT would be to actively involve its staff in running courses at regional training centers, using such field work to develop curricula, teaching materials and the teaching skills of the regional training centers' staff. This effort should encourage, not obscure, regional centers' initiative and involvement in formulating course content.

Management Training Provided by Other Departments

4.36 Three central ministries - Finance, Education, and Transmigration, offer some, albeit limited, management training.

4.37 Like other "technical" departments, the Ministry of Finance has its own training organization, employing a fairly large full time staff. Most of its activities, and all of its long term courses take place in Jakarta but are open to its regional staff; some of these offer "degrees" similar to APDNs and IIPs and some are promotion courses. Other more specialized, short term courses are offered in Jakarta and in regional centers.

4.38 The Ministry of Education runs a part-time program in administration which is open to employees of all government departments who meet minimum education and service requirements. It is a two-year program and includes subjects such as government, financial administration and personnel administration; it is available in most provincial headquarters towns. This seems to be a small but valuable contribution to middle and lower management training; unfortunately it is only available to the minority of staff posted in provincial capitals.

4.39 The Ministry of Transmigration, whose responsibilities include much "management" work in the regions, offers 2-3 month courses in Jakarta in planning, project management, cooperative extension, personnel management, treasury and storekeeping. There is no in-service training at the province level for staff.

Evaluation of Regional Management Training

4.40 In quantitative terms, training for regional administration appears roughly sufficient for the small select cadre stream, i.e. APDN, followed by IIP. But, for the large number of non-cadre managers, training opportunities are very insufficient.

4.41 The quality of training at all institutions, although obviously with degrees of variation, is subject to a similar set of criticisms:

- (a) teaching is too theoretical with too little emphasis on practical, problem solving techniques;
- (b) course content is imposed by a central authority with little appreciation of regional variations;
- (c) subject matter is fragmented among many courses with few opportunities to examine a broad issue in any depth;
- (d) the status and pay of management trainers throughout government but particularly at local government levels are too low, so that qualified people are difficult to recruit.

4.42 If management courses for regional government are to be expanded and improved, the impetus for change will have to come from central authorities since regional authorities have very limited control over the allocation of resources.

D. A Strategy for Reform

4.43 This report proposes a strategy for reform and development of management capabilities in local governments on four broadly stated levels:

- (a) strengthening the leadership role of MHA's training center;

- (b) a gradual process of decentralization and regionalization of training, including the establishment of perhaps 6-7 autonomous regional training centers; and
- (c) closer ties among the provincial governments, the regional training centers and leading provincial universities;
- (d) streamlining central-local government financial relationships, with progressive decentralization of development administration to the provincial and district governments.

4.44 Measures to strengthen MHA's BADAN DIKLAT's management function (i.e. planning, programming and evaluating training in the regions) and to improve its capacity as a central institution to serve local governments should include:

- (a) manpower planning and training for MHA's central training staff;
- (b) curricula and materials development for the regional centers;
- (c) medium term planning and programming of training and management development activities and monitoring of these activities;
- (d) training of trainers;
- (e) research on the administration of regional development; and
- (f) support and collaboration with university training programs to ensure they are responsive to local government needs.

4.45 However, BADAN DIKLAT's role should be confined to providing leadership and overall guidance. It should avoid detailed prescriptions of local training needs. This should be the function of local governments who are best able to assess the strengths and weaknesses of their local staff.

4.46 Thus, in the context of gradual decentralization, it is proposed eventually to establish some six or seven autonomous regional training centers. These would integrate induction training and mid-career management development. They would thus inherit the SELAPUTDAS, APDNs, provincial PUSDIKLATs, BAPPEDA courses, and other administrative training in the provinces. Their management should be guided by advisory boards representing MHA and provincial governments within their region. Locating such centers close to a prestigious university and establishing reciprocal visiting lecturer arrangements would have obvious benefits for both institutions.

4.47 MHA may wish to outline the essential elements of these courses, but the manner of presentation which suits the educational level of students, and the appropriate mix of these subjects, including those of special local relevance, should be left to the regional training center. Courses should be as practical as possible, geared to local needs, with frequent use of case studies and problem solving exercises; they should focus on developmental issues, emphasizing increased sensitivity to the local socio-economic environ-

ment. Mid-service programs should particularly aim at being flexible in meeting a wide variety of local and often short term demands; whenever possible they should be addressed to a variety of agencies and staff levels to facilitate lateral and vertical communication. They should also be economical in their time requirements to minimize the period away from operational duties.

4.48 Staffing for these training centers is clearly crucial. Success may depend on upgrading the status and remuneration of instructors, who ideally should be experienced administrators with good quality university degrees.

4.49 The simultaneous establishment of all of these regional centers would be precipitous at this stage. Thus it is recommended to initiate one, on a pilot basis to serve as a model for subsequent phased development of the remaining centers. Upgrading of the Yogyakarta SELAPUTDA to the level of a regional training center might be considered as the pilot project.

4.50 There is considerable scope and benefit in establishing closer contacts between universities and local government training institutions. Universities might be encouraged to expand non-degree short term courses to meet specific local needs. Participants in such courses would be mature and experienced officials, who would have as much to offer as to gain from their teachers. Moreover, universities might gain some useful insights on how best to formulate undergraduate public administration programs from such courses. In this context, serious consideration should be given to shifting all MHA's degree programs in public administration to selected universities. This would strengthen MHA's activities by focusing them on non-academic, in-service training and augment the universities' public administration programs to serve the needs of local government.

4.51 Finally, it must be stressed that while better management training can help to improve the performance of local government, it is not a panacea. Training is not a substitute for the more fundamental reforms in policies and systems for decentralization which are still necessary. Improved regional management capability will be a necessary ingredient in achieving these goals. Decentralization is thus viewed as a gradual process of strengthening local governments and organizations, particularly their managerial or financial capabilities. This process should be carefully nurtured by the central Government; training, incentives and national forums may be used to reorient the central bureaucracy away from control and toward guidance and support. Senior administrators would be called upon to lead their line agencies in changing their centrist attitudes and planning and designing their own programs for decentralization.

CHAPTER V. PUBLIC ENTERPRISE MANAGEMENT 85/

A. Structure and Role

5.01 Public enterprises (PEs) constitute an important part of Indonesia's economy, particularly its modern industrial sector. Their combined annual investment is about Rp 3,000 billion (1981/82), or about 25% of GDI, and 43% of public investment. There are 222 public enterprises at the national level, and a large number of smaller enterprises owned by the regional governments. The national level enterprises are among the largest in Indonesia, and are distributed by sector as follows: agriculture (25%), industry (20%), transportation and communication (16%), and banking and other services (39%). They comprise the government's largest revenue and export earning activities and claim a large and growing share of the budget. In addition, nonfinancial public enterprises are major borrowers and/or recipients of foreign aid and they were responsible for almost 90% of all domestic credit outstanding in the early 1980s.^{86/}

5.02 Public enterprises not only control strategic industries and services, but, in addition, are charged with implementing some national policies, such as price stability, and pioneering economic activities where private initiative is lacking. They are also vehicles for developing entrepreneurship and stimulating employment. While most PEs pay lip service to the profit motive, their social objectives, assigned by government policymakers, are often conflicting, and are sometimes used as an excuse for inefficient operations.

5.03 The standards for managerial performance, and, hence, for management training and development, are much weaker in public than in private enterprises. Based on past experience, it is assumed that the government will "bail out" any firm in trouble. A recent study of public enterprises by the Ministry of Finance indicates that overall profitability has declined from 4% in 1979 to 2.9% in 1983.

35/ For detailed analysis see working papers: Sharshar, A.M., The Indonesian Experiment in Performance Improvement Programming, LAN, 1981; Powell, V.G.E., Management Training and Development in Indonesia, 1982; Bicheron, Management Training and Development in Indonesian Agricultural Enterprises, 1982; Lembaga Pendidikan dan Pembinaan Manajemen (LPPM), Survey on Management Education in Indonesia, 1982; Butterworth, J., Public Enterprises Management Training and Development in Indonesia, 1982. These papers were prepared as background for this report.

86/ Pertamina, PLN, and agricultural estates are major borrowers from the domestic and international banks. Major revenue generating activities are oil, LNG, minerals and forestry. Oil alone constitutes 70% of government revenue and 60% of exports.

5.04 Thus, there is growing concern in Indonesia over the PEs' generally poor performance, the causes of which are largely rooted in management deficiencies. Other factors, beyond the control of individual PEs, relate to the overall structural problems of national planning and control systems and policy issues, principally relating to pricing and trade (Chapter 2).

5.05 The poor performance of certain strategic PEs supplying basic inputs or services clearly affects other public and private firms. Some examples are: steel products (reflecting high costs and protected production), financial intermediation (reflecting the slow processing of credit applications and lack of entrepreneurial orientation at the state banks), and transportation (especially rail and sea). Moreover, financially weak public enterprises have often had preferential access to state banks and Government credit sources, and thus limiting private sector access to capital. These inefficiencies operate to the ultimate detriment of the domestic consumer and the nation's export performance.

B. Public Enterprise Environment

5.06 There appear to be four environmental factors of particular concern to the management and operation of public enterprises: (a) inadequate determination of corporate objectives and plans; (b) deficient systems for monitoring and evaluating performance; (c) personnel policies which fail to develop and reward managers; and (d) insufficient mechanisms for periodic rationalization of the role of public enterprises.

5.07 Corporate planning is misunderstood and practiced rarely: corporate objectives and plans are not adequately formulated. Managers are rarely subjected to the discipline of critically examining their enterprises' objectives and strategies. Recent attempts to introduce corporate planning in some public enterprises have encountered several difficulties. First, there is virtually no communication between the enterprises and supervising ministries in determining the latter's goals; externally imposed targets are limited to production levels, and pay little heed to technological changes, quality improvements, market opportunities, diversification, or options for cost reduction. Second, there is no mechanism for adapting or updating such plans. Data collection is not organized to feed meaningful and timely information into a continuous planning process. Critical assumptions are hardly examined or tested. Not surprisingly, under such conditions, plans lose their credibility. Third, the planning units of public enterprises are relatively weak, and unable to anticipate future changes and generate alternative strategies. They receive little attention from top management or assistance from the supervising ministries. Fourth, the boards of directors are not equipped to take responsibility for objective setting. Board members are not usually selected on their managerial competence, or their ability to counsel top management.

5.08 Lacking strategic objectives and a clearly understood operating framework, enterprises are controlled externally through detailed and ad hoc interference in areas which should be the prerogative of internal management. The procedures governing the formulation and approval of public enterprises'

annual budgets virtually precludes long term financial planning. Moreover, this focus on annual budgeting and excessive control has discouraged strategic corporate planning and absolved enterprise managers from responsibility for determining broad objectives for their enterprises.

5.09 The second area of concern is the absence of monitoring and evaluating systems of public enterprise performance, based on objective measurement criteria and a regular and reliable flow of information. With few exceptions, accounting systems are underdeveloped and not oriented toward decision making and internal accountability. The shortage of accountants and the lack of uniform accounting standards and managerial auditing compounds the problem. Information on performance is extremely scarce and unreliable. There is no effective central body with a broad overview of the performance of public enterprises.^{87/} Despite considerable apparent public concern, there is no effective consumer council to mobilize pressure for increased accountability of public enterprises.

5.10 The third area of concern is the lack of personnel policies for developing managers and rewarding their performance. The present system of assignment and promotion does not emphasize either managerial competence or systematic career planning. Management development programs within enterprises are almost nonexistent. The lack of performance incentives is often reflected in the poor quality of training programs, a lack of interest by the participants, and the failure to implement new concepts suggested in training programs. The present problem of management succession, combined with the recent growth and diversification of public enterprise activities, highlight the need for succession schemes, management development programs and manpower planning. Managers at all levels should be encouraged to view the development of their subordinates as an essential responsibility and to engage them in identifying and solving management constraints.

5.11 The last area of concern is the need to periodically review, in a macroeconomic context, the role of public enterprises. At present, public enterprises are charged with many extraneous activities resulting from historical accidents. In addition, the pressure to diversify exports and expand the industrial base may be placing unrealistic demands on the present managerial capabilities of public enterprises.^{88/} The National Basic Guidelines (GBHN,

87/ Recently, a central audit office has been established with the responsibility for overseeing both the Government apparatus and its enterprises. It is expected to provide guidance and establish standards for audit. It could be used as a vehicle for reforming the accounting systems and establishing appropriate standards for accounting practice. It may be an important tool for improving managerial performance, especially if its mandate is broadened to include managerial audit.

88/ There are signs that this is already occurring in some agricultural estates, especially in enterprises that are engaged in NES activities in many remote areas. Some of these enterprises have lost many of their middle management teams through transfer and promotion to other agricultural estates in a too short time to allow for regeneration.

1978) indicate that in sectors where private enterprises can effectively operate, the government is expected to leave these sectors gradually to the private sector by selling its shares. This principle argues for gradually rationalizing the role of public enterprises in the economy. Meanwhile, public enterprise activity should be selectively pursued, based on comparative advantage.

C. Performance Problems and Management Needs

5.12 A survey of public enterprises in Indonesia has indicated that the majority of managers considered the most important performance criteria to be, in order of priority: (1) production levels; (2) fulfillment of the customer's needs; and (3) profit.^{89/} It is interesting to note that profitability which presumably depends, inter alia, on the output of the enterprise and meeting customers' needs, ranked lower than the other two objectives. This may be partly due to the present dependency of many public enterprises on the state budget for their investment requirements. The PEs tend not to be market oriented, whether in terms of innovation, cost, or quality, because of the quasi-certainty of government funding and protection from competition.

5.13 The same survey identified factors affecting performance, as perceived by managers and educators. The most important external factors were reported to be the lack of decision making power, a poor policy framework, the lack of employee motivation, external interference, constraints on pricing and sales, insufficient demand, and strict application of government procedures. Internal factors included poor planning, lack of skilled and motivated managers, and bureaucratic culture. The managerial deficiencies were found to be: limited appreciation of environmental constraints, and limited ability to identify new opportunities (strategic planning), the lack of functional skills (marketing, finance, personnel, production), the lack of understanding and commitment to clear objectives, inadequate delegation and inability to motivate (personnel policies).

5.14 Performance problems in public enterprises were examined in a government sponsored Performance Improvement Program workshop held in 1979-1980.^{90/} This was an effort by managerial staff in seven public enterprises (in the fields of banking, insurance, mining, aircraft manufacturing, railways, postal services, and a regional water board) to identify performance constraints. About 60% of the reported problems fell within the purview of competent management; 20% were related to government regulations, and thus could be solved only by external action; and 20% resulted from environmental constraints (see Table 5.1). Several of the problems which could be handled

89/ The results of this survey are described in detail in the article "Curriculum Development for Education and Training of Public Enterprise Managers" by Dr. Buchari Zainun, in Training Public Enterprise Managers, Gabriel Iglesias, et. al., (editors), APDAC, Kuala Lumpur, 1980.

90/ See Sharshar, A.M., op. cit.

Table 5.1: LIST OF PUBLIC ENTERPRISE PROBLEMS AND THEIR SOURCE AND AMENABILITY TO SOLUTION THROUGH TRAINING

Problem	Internal	External	Areas where training for Enterprise managers can contribute	Areas where training for personnel of Control Agencies can contribute
1. Conflicting enterprise objectives	X	X	X	X
2. Lack of performance evaluation criterion	X	X	X	X
3. Inadequate planning	X	X	X	
4. Lack of information	X	X	X	X
5. Inadequate decision-making	X		X	
6. Uncoordinated supervision (financial audit)		X		X
7. Uncoordinated regulations and policy		X		X
8. Inadequate external supervision		X		X
9. Excess capacity	X		X	
10. Poor quality	X		X	
11. Budgeting procedure	X	X	X	X
12. Absence of financial planning	X		X	
13. Liquidity and cash flow	X		X	
14. Capital obsolescence	X		X	
15. Organizational stagnation	X		X	
16. Ineffectiveness of commissioners		X	X	
17. Inadequate financial resources or capital shortage	X	X	X	X
18. Outmoded management techniques	X		X	
19. Lack of infrastructure support from other sectors		X		X
20. Spatial dispersion of activities	X	X	X	X
21. Attitude of directors	X		X	
22. Lack of delegation of authority	X		X	
23. Poor PR job	X		X	
24. Frauds and corruption and lack of integrity	X		X	
25. Poor relations with clients	X		X	
26. Complex work procedures	X		X	
27. Arbitrary and ad hoc changes in government regulation		X		X
28. Poor internal control	X		X	
29. Quality of managerial personnel	X		X	
30. Employment procedures	X		X	
31. Material management	X		X	
32. Quality of technical staff	X		X	
33. Shortage of experienced and trained personnel	X		X	
34. Apathy and negative attitudes	X		X	
35. Apathy of public		X	X	
36. Lack of training and personnel development	X		X	
37. Recruitment problems	X	X	X	X
38. Inadequate incentives	X		X	
39. Lack of career development	X		X	
40. Shortage of materials	X		X	
41. Dues rate collection problems	X		X	
42. Competition	X		X	X
43. Low salaries		X		

by managerial action are also common to private enterprises in Indonesia. These include: inadequate decision-making, shortage of experienced personnel, poor product quality, absence of financial planning, inadequate financial resources, outmoded management techniques, inability to delegate authority, poor internal controls, inadequately trained personnel, liquidity and cash flow problems.

5.15 The apparent failure of management to solve these problems is due as much to the critical shortage of skilled managerial staff in the PEs as to the shortcomings of existing managers. This is manifested in the multiplicity of jobs, tasks and positions held by many senior managers. The result is that full time positions are, in effect, held by part time staff. Consequently, only certain tasks - the most immediate (and often short term) tasks dealing with internal emergencies, or external demands and inquiries of supervising authorities - are usually done. Under these circumstances, managers are unable to adopt a long range perspective.

5.16 As previously stated, public enterprises do not generally practice corporate planning. Recently, medium term planning techniques were introduced at several agricultural estates; this produced a large volume of data and lengthy plan documents. However, such plans did not define corporate objectives or strategies. The production targets for each enterprise, as set by the central planning agency and the Ministry of Agriculture, were linked neither to the managerial and technical capacities of individual enterprises nor to their financial positions. Consequently, the proposed plans had little relation to the actual performance and implementation problems of these estates. The planning process was conceived too mechanistically. It was limited to projections of past trends, excessive manipulation of data, and the production of detailed blueprint plans. The process did not generate any definition of mission, alternative strategies, realistic objectives, or standards of performance. The plans were produced for the consumption of the central authorities while the estates were inclined largely to ignore them and go about their business as usual.

5.17 This is unfortunate, as some PEs have undoubtedly developed some planning capability. However, it is now necessary that realistic planning, reflecting implementation constraints, be viewed as an essential management function of all public enterprises.

5.18 Some ministries have established a tradition of conducting annual workshops to review the targets and implementation problems of their annual plans and to draw up new action programs for the following year. The Ministry of Finance is usually represented by low level staff at such forums. These workshops could provide a forum for consideration of the total planning process, and for acquainting central planning officials with the realities of running public enterprises. They could also be used to expand and deepen the involvement of enterprise managers in the planning process of their supervising ministries. This could be the beginning of a meaningful two way communication between the enterprises and supervising ministries, not only for setting production targets, but also for discussing important issues such as technological change, quality improvement, diversification and cost reduction. Such discussions could eventually aim at encouraging longer term

planning, reducing unnecessary external controls, and increasing the overall efficiency of public enterprises' performance.

The Quantitative Gap

5.19 In the absence of reliable basic data, the survey team made a rough estimate of present demand for managerial training based on international norms. It is estimated that the present stock of managerial and supervisory personnel now employed in the PEs amounts to about 96,000 persons.^{91/} Table 5.2 describes the distribution of these managers by level.^{92/} Information regarding the basic characteristics (age, education, experience, etc.) of this stock of managers does not exist.

5.20 Almost three quarters of senior PE managers are scheduled to retire in the next five years.^{93/} Experience in similar developing countries suggests that about 80% of managers in PEs need some training to upgrade their knowledge and skills. Assuming that a 15% annual addition to the present stock of public enterprise managers is required to satisfy replacement and growth demands (including possible creation of new enterprises), total annual demand for managerial training would be almost 9,000 persons; if supervisory training is included, the total demand would triple. Distribution of this annual demand is given in Table 5.3.

Table 5.2: THE ESTIMATED PRESENT STOCK OF MANAGERIAL AND SUPERVISORY PERSONNEL IN INDONESIA PUBLIC ENTERPRISES (1982)

Categories	No. of Enterprises	Total Employees	Estimates of No. of managers			Total
			Senior	Middle	Junior	
Agriculture	55	1,005,800	200	12,300		12,500
Non-agriculture	167	348,500	350	3,500	12,200	16,050
Subtotal	<u>222</u>	<u>1,354,300</u>	<u>550</u>	<u>15,800</u>		<u>28,550</u>
Supervisors	-	-	-	-	-	67,650
<u>Grand total</u>						<u>96,200</u>

91/ Typically, in large and medium public enterprises in developing countries managerial and supervisory personnel make about 4.6 and 5% of total employment respectively. For agricultural enterprises, however, a team field visits have indicated that an estimate of 1.2% of total employment as managerial staff would be more appropriate for the agricultural sector.

92/ Ratios for various levels follow the international experience in developing countries, see background papers by Powell and Bicheron.

93/ See background papers by Bicheron and Powell, op. cit.

Table 5.3: ESTIMATE OF DEMAND FOR MANAGEMENT TRAINING AND DEVELOPMENT IN INDONESIAN PUBLIC ENTERPRISES (1982)

Categories	Annual upgrading demand (15%) of present stock	Annual Growth & replacement (15%)	Total annual demand
Managerial Personnel:			
Agricultural	2,000	2,000	4,000
Non-agricultural	2,560	2,440	5,000
Supervisory Personnel:			
All enterprises	10,840	10,160	21,000
<u>Total</u>	<u>15,400</u>	<u>14,600</u>	<u>30,000</u>

5.21 This annual demand for managerial training is more than double the supply capacity of sectoral training centers, estimated at 4,000 annually, which must also accommodate their supervising ministries.^{94/} When demand is disaggregated by sector, supply gaps become much higher for several key sectors such as industry, mining, and transportation. The addition of supervisory training needs magnifies the inadequacy of present training capacity. However, the quantitative gap only highlights the macro shortage of sectoral training facilities; detailed needs assessments are required for all PEs to determine the precise nature of these gaps and to design appropriate training. The following analysis provides a qualitative assessment of needs by level of management.

Patterns of Need

5.22 Management training requirements for public enterprises fall into three categories: (a) basic training for new entrants, who will be recruited over the next few years; (b) upgrading or refresher training for existing managers (including potential candidates for promotion to top management); and (c) training for supervisors recently promoted to management positions.

5.23 New entrants. In addition to the need for good basic and professional education for new entrants, there is a need for planned experience on the job. Planned work experience in industrialized countries is usually obtained under the tutelage of a supervisor; however, in Indonesia, where PE managerial shortages at all levels are endemic, practical experience is much

^{94/} For details of the estimates, based on a sample survey, see Working Paper by LPPM, 1982.

more difficult to obtain.

5.24 Furthermore, since management standards are low, the concept of management development, that is, the acquisition of experience and judgment through the successful application of managerial skills and techniques within the enterprise, is little understood or practiced. Extensive interviews with public enterprise managers, as well as university teachers, indicate that the managerial development is conceived almost exclusively as attending lectures, seminars, workshops, etc, with virtually no on-the-job exposure.

5.25 Practicing managers. There is a very large demand for short term in-service training for managers, both from public and private enterprises. In large part, these services are supplied from outside the firm, by universities and training institutes (Chapter 7) and sectoral training centers. Few Indonesian companies, public or private, have in-house training programs. Neither do they have the capability to assess their own managerial needs or to plan their management training and development programs accordingly. The training function within the PEs generally has low status, and for this reason, line managers are not adequately involved in the planning, management or delivery of training for their subordinates. Where training centers do exist at the large enterprises, they are often staffed with less able managers.

5.26 In contrast, PE managers usually regard outside management training very highly. While perhaps less popular with the public enterprises than with private firms, short courses focussing on functional management areas given by institutions such as the Management Institute at the University of Indonesia and the Institute for Management Education and Development (LPPM) enjoy considerable patronage from the PEs.

5.27 Supervisory Personnel. In the last ten years, Indonesian industry has grown significantly. The size of enterprises, particularly those benefiting from association with joint venture partners, has significantly increased the importance of the management level closest to actual production, namely supervision of the work force. Yet little attention has been paid to preparing employees for this important responsibility. Few, if any, of the management trainers in the universities and management institutes have worked in a factory or other type of enterprise; and very few have had any exposure to supervisory training programs. This is a clear area of need in both public and private enterprises.

D. Sources of Training

5.28 Management training for public enterprises is supplied by the universities, private management institutes, the sectoral training institutions, and in-house training.

5.29 University training (Chapter 7) includes both undergraduate training in business administration and short courses for practicing managers. The undergraduate programs, even at the best universities, are fairly weak. Despite expanded graduate management programs in many universities, the competition between PEs and the private sector for the very limited number of

graduates is keen. The present low levels of compensation in PEs suggest that PEs are unlikely to be able to attract a sufficient number of competent candidates. Short courses at the University of Indonesia are well patronized by PE managers and the quality of courses appears to be good. Other university management institutes offer only limited alternatives.

5.30 A critical issue is whether university management departments can provide relevant management training for the PEs. For many enterprises they are presently the only source, but they are necessarily general in their orientation. Management departments occasionally present "tailor-made" courses aimed at sectoral needs, but course designers and teachers usually lack any direct experience in the sector.

5.31 There are few private management institutions which provide quality short-term training to practicing managers. LPPM, which raises much of its income from such courses, is an exception (Chapter 7). Public enterprise managers comprise about 15% of recent LPPM course participants. Most of its training combines technique and theory courses with "supervised project work." Building on the LPPM model, private management institutions could play a significant role in training PE managers, provided that they acquire a critical mass of qualified faculty.

5.32 The sectoral training centers are generally quite weak. They focus usually on technical and vocational training. When management training is offered, it is mainly provided by part-time trainers drawn from university and government, who frequently have little or no business experience. Most (90%) of the "career" training staff hold only undergraduate degrees. Training materials are often irrelevant to the real needs of the managers, with the result that participants often regard such courses largely as a waste of time. Nevertheless, there is a real need for these centers, and potential for their improvement. Most enterprises are too small to develop their own in-house training. Thus, sectoral training centers constitute a major component of the present limited supply capacity.

5.33 An example of how sectoral training centers could better serve their clients is provided by the Agricultural Training Institute, (LPP), which trains agricultural enterprise managers.^{95/} This center is close to its client institutions, and designs its courses to reflect real-life operating problems. The trainers are full time, and are adequately paid. The center is funded by the client enterprises, which helps ensure the relevance of its programs. Possibilities for replicating the LPP model in other sectors should be actively sought.

5.34 Furthermore, sectoral training centers could become an appropriate client group for the university management institutes. The latter could become the major providers of software (teaching materials, research findings, training of trainees, etc.); while the former would do the actual teaching.

^{95/} For an in-depth case study of LPP, see background paper by Bicheron, op. cit.

In the context of a national training system, universities would engage in "wholesale", while sectoral training centers would provide the "retail", training function. Accordingly, there would be a gradual shift of training to these centers, which are closer to the needs of the PEs.

E. Strategy for Development

5.35 A strategy to develop PE management should have the following objectives. First, it would strengthen the capacity of PEs to formulate their own performance improvement programs, to assess their training needs and to design appropriate manpower, career and management systems. Large enterprises would focus on introducing management development programs and strengthening in-house management training. It is important to include an experiential element in training to give new entrants an opportunity to build experience under adequate supervision. Supervision would have to come from the most experienced top managers, who, at present, do not generally regard training as part of their responsibilities. Reversal of this attitude is essential to improving the performance of the public enterprises. A clear policy statement by the government emphasizing the importance of improved management, and according management development top priority within the public enterprises, would be an important step in this direction.

5.36 Second, the sectoral training centers would become the main suppliers of management training, consultancy and research for PEs in their respective sectors. The thrust of their development should be on upgrading their trainers, providing them with adequate incentives, and ensuring that these centers become responsive to the needs of their client PEs. The successful experience of LPP could provide the basic principles for these reforms.

5.37 Third, universities and private institutes would supplement and complement the role of sectoral centers. Leading universities would be encouraged to meet the software needs (training of trainers, teaching materials, research) of sectoral training centers (who would provide direct training and client-tailored management development programs). Universities could also play a catalytic role in promoting cross-fertilization of management development experience across sectors and among public and private enterprise managers.

5.38 Finally, while all levels of PE management need further development, priority may be given to the top management and supervisory levels which have been neglected so far.

5.39 One important ingredient of this strategy is to maintain the freedom of PEs to choose among alternative suppliers of training. Under appropriate Government policies, different sources would be expected to meet different types of needs and develop different comparative advantages over time. Universities and private management training institutes are likely to provide more generic, conceptual and technique oriented courses while sectoral training centers are better positioned to provide sectorally adapted and action learning oriented courses. The availability of different types of

courses would allow PEs to select the most appropriate blend for their different levels of development and managerial backgrounds. More important, this policy would maintain an adequate degree of competition which would be necessary to maintain quality. The return on government investment in sectoral training centers (and public universities) would be more adequately secured through a less regulated market for training, provided that the management of these public institutions would operate under an incentive system which makes them responsive to the public enterprises.

CHAPTER VI. PRIVATE ENTERPRISE MANAGEMENT ^{96/}

A. Role and Structure ^{97/}

6.01 The Government accords a high priority to the private sector, including small scale enterprises (SSEs) and cooperatives, in promoting industrialization, exports and employment. Medium to large-scale enterprises dominate the private sector in terms of value added (about 80% of the total), while small-scale industries account for over 85% of manufacturing employment. Medium and large enterprises are expected to be the primary carriers of technological and managerial innovations and to lead the industrialization process. If properly linked to the small enterprises, the large enterprises could also provide technical and managerial assistance and market opportunities for the small enterprises. The promotion of SSEs is expected to create a significant share of future non-farm employment, and help bring about geographical dispersion of industry, more equitable distribution of income, and thus help to meet basic needs. Cooperatives have similar objectives, and though they presently deal mostly with agriculture and fishing, as Indonesia's level of development rises, they are likely to move into management of agro-processing and other types of industries and services.^{98/}

6.02 With the recent fall in oil revenues, and the consequent reduction of government investment in many large industrial projects, has come an increased emphasis on the private sector which is expected to take up some projects formerly intended for state ownership. The desired expansion of exports has generated a search for ways to reduce or eliminate certain subsidies. In April 1983, it was announced that regulations governing private industry would be relaxed. The resulting business environment - more competitive and less regulated - will increasingly demand sound professional management.

^{96/} For background on case studies which contributed to this chapter see: K.R.S. Murthy, "Management Education in Indonesia: Private Sector Needs", 1982, background paper to this Study.

^{97/} For a description of the sectoral structure of the industrial sector see Selected Issues of Industrial Development and Trade Strategy, Annex 1, World Bank, 1980.

^{98/} President Suharto underlined the importance of cooperatives in an address to Parliament in January 1982. The movement is one of the largest in the world, comprising nearly 21,000 cooperatives, 6,000 of which are rural village-based, and 15,000 of which are product-based (milk, fisheries, etc.) or service cooperatives (credit, consumer). The 6,000 village cooperatives, which collect and process rice, have a membership of about 6 million.

B. Private Enterprise Environment

6.03 There is a strong national emphasis on stimulating indigenous business and entrepreneurship to share the burden of development with the government. However, policy makers and business leaders face a complex set of environmental constraints, including: (1) historical and cultural factors and a colonial legacy; (2) pervasive administrative controls which distort markets; (3) a centralized administrative apparatus; (4) bureaucratic inertia and poor support services, including banking; (5) weak private sector organizations for management development and policy dialogue; and (6) historical isolation of the bureaucracy from the private sector.

6.04 Historical and cultural factors have played a dominant role in constraining the development of entrepreneurship in Java. Siregar's ^{99/} observations regarding Javanese society include a strong preference for an official over a business vocation (safer and more prestigious), limited time horizons, and the absence of a strong need for material achievement. Many Indonesians who were interviewed by the team have stressed the negative influence of colonial domination on the entrepreneurial spirit.^{100/} However, there are signs that some of these attitudes are changing. Future management development efforts should address this issue and experiment with behaviorally based and achievement motivated approaches to promote entrepreneurship.

6.05 Private enterprise generally views the regulatory environment as overly complex with a high degree of uncertainty. Partly for historical reasons, there is a tendency to use direct rather than indirect intervention in economic affairs. While many regulations originally aimed at developing indigenous entrepreneurs, and ensuring regional dispersion and "orderly" industrialization, over time a rather complex system of regulations has grown up. Administrative procedures for obtaining import and export licenses, and investment permits, together with other regulations have had a substantial disincentive effect, and have restricted competition, the creation of new businesses, and the efficient growth of the industrial sector. With the legal basis for many of these regulations not very clear, new investors perceive the system with considerable uncertainty. The ambiguity of many regulations increases the personal discretion available to officials. It also shortens the time horizon of investors, encourages the search for quick yielding activities and discourages risky long term developmental activities. Managerial skills are subordinated to the ability to deal successfully with the bureaucracy.

^{99/} Arifin Siregar, Indonesian Entrepreneurs, American Association for the Advancement of Science, 1967.

^{100/} See also Philippe Lasserre, A Contribution to the Study of Entrepreneurship Development in Indonesia, INSEAD, 1979; Wilfred and Neill, Twentieth Century Indonesia, Columbia University Press, New York, 1973; and Burhamzah, A Survey on Economic Development in the Outer Provinces of Indonesia, Institute of Developing Economics, Tokyo, 1971.

6.06 The present regulatory environment often discriminates against the small, inexperienced and "economically weak" firms.^{101/} The government acknowledges the major role of small enterprises in generating productive employment and has therefore introduced several measures to protect them. In practice, however, the organized sector has been more effective in diverting such measures to their own advantage. Since the bureaucracy apportions licenses, contracts, credit and other facilities, the more powerful businessmen and clients of the bureaucracy have sometimes sold concessions to foreign businessmen rather than used them to establish indigenous ventures. Small indigenous businesses lack the resources and organization to ensure that the implementation of government regulations would work to their advantage - as intended - or remain at least neutral.

6.07 The legal system offers little support to small business development. Small and even medium sized businesses have only limited access to effective legal aid.^{102/} Company litigation is very costly, protracted, and only infrequently produces adequate redress. The resulting higher risks to the small businessman distort his assessment of growth potential, inhibit the expansion of business outside the extended family, and reduce the applicability of many modern business methods.

6.08 A third factor inhibiting the development of entrepreneurship and a healthy growth of the private sector is the overcentralized administrative apparatus. A majority of entrepreneurs interviewed by the study team felt that while government policy intended to foster an environment favorable to the development of indigenous entrepreneurs, it had in fact generated a set of excessively bureaucratic procedures which limited competition and promoted

101/ As an example, many small businesses, accounting for a large proportion of total manufacturing employment, do not register with the Ministry of Industry, and thus do not qualify for many assistance programs, ranging from credit to consulting services. Registration itself is a complex undertaking, necessitating dealing with many different officials. Most small entrepreneurs simply cannot spare the time to wait in the various offices. Then, too, once the small business is registered, it may become the target of harassment by petty officials, who may find many sorts of technical violations of regulations, and who may require payments to overlook them. There may be more serious types of interference with the operation of small businesses, once these become officially "known". Small businesses often exist near the domiciles of their owners, or near sources of materials, markets, or both. Recently some small businesses were forcibly removed from their locations and relocated in industrial parks. This was done to fill up the parks, regardless of the effect on the businesses.

102/ For cases such as: contract enforcement, debt recovery, fraud prevention, patent protection, and the recovery of misappropriated or stolen property.

unfair practices.^{103/} A centralized system with complex regulations, demands more decisions than it can supply; it tends to concentrate on preventive controls rather than promotional assistance, and, in so doing, accords certain officials considerable power. Meanwhile, top officials are overburdened and isolated from the lower levels of the bureaucracy who, lacking any significant responsibility, frequently view their jobs with disinterest. Business is thus tempted, if not forced, to "speed up" the administrative process through corrupt practices, which generate "invisible costs" and reduce the competitive position of Indonesian enterprises.

6.09 The weak state of government support services, including financial, technical, and training facilities, further hinders private enterprise development. Government departments, particularly the Ministries of Industry, Trade, Cooperatives and Banking, play a critical role in regulating and promoting industrial development. Yet, their administrative culture, is very different and perhaps insensitive to entrepreneurial concerns. Extension workers and loan officers are not encouraged to seek out new entrepreneurs. Often lacking business and managerial skills themselves, they have little to offer the intended beneficiaries. The Government's limited promotional programs are fragmented and lack any meaningful input from the business sector.

6.10 The state banking system is critical to the private sector, particularly small enterprises. Most entrepreneurs, however view banking procedures as too complicated and bankers as unresponsive. The small entrepreneur is not in a position to meet these procedural requirements without assistance. Bankers, on the other hand, regard the small businessman with caution, given his lack of training and financial discipline. Thus the banking system must be conservative given the lack of an entrepreneurial culture, but this, in turn, discourages entrepreneurial development. This situation is particularly apparent in the banking system outside Jakarta.

6.11 There are unfortunately no strong private sector associations in Indonesia to offer policy advice to the Government on matters of long term development in general, and managerial development, in particular. There are many professional management and management training associations, and many organizations that represent the private sector. However, none of these have yet developed the capacity to influence government policy. KADIN, the Indonesian Chamber of Commerce and Industry, has the greatest potential for eventually becoming a strong advocate for private sector interests. At present, however, its local offices, mainly engaged in training and counseling activities, need strengthening. Its policy outlook, which thus far has focused on protectionism, needs to be broadened to ensure fair competition and press for a responsive bureaucratic apparatus.

6.12 Historically, the bureaucracy has been isolated from the private sector. There has been no significant movement between public and private sectors which could have exposed public administrators to new ideas and first-

^{103/} See Lasserre, op. cit., p. 26.

hand experience in business problems and management techniques. Isolation has built distrust on both sides, and has reinforced the perception of complexity and uncertainty of the regulatory environment. The government has not been able to assess the effectiveness of its intervention in a timely fashion, ^{104/} or adequately explain or clarify new policies.

6.13 The above constraints sap Indonesia's managerial and entrepreneurial resources and they strongly imply that the pursuit of management development must be complemented by efforts to "retool" the bureaucracy to improve its understanding and support for private sector development. In general, this promotional role demands a new outlook from the bureaucracy that seeks an active dialogue with business and community groups including their involvement in policy and program formulation. However, ultimately, development of the private sector and its managerial capability remains the primary responsibility of business leaders themselves and thus their efforts in establishing self-help organizations and ensuring adequate collaboration with the government will be crucial in promoting a policy environment conducive to the development of managerial resources.

C. Performance Problems

Medium and Large-Scale Enterprises

6.15 Medium and large-scale enterprises suffer from a number of performance problems related to weak management.

6.16 Production Management. Production facilities tend to be poorly organized. Production scheduling and inventory control are virtually nonexistent, although this is sometimes due to exogenous factors such as unreliable shipments, or customs clearance problems. Machine maintenance is often neglected, and is seldom planned to coincide with breaks in production. Production planning appears to be well done in large enterprises with continuous process production, but in the multi-product facility or small job shop, production planning, scheduling and control are poor. This results in inflated costs and poor quality.

6.17 Quality Control. This problem is widespread, obviously lessening market acceptability, and reducing export possibilities. Two examples are smoked rubber sheets, and plywood - both are important products, with a clear competitive advantage, but in each case poor quality constrains the volume of exports, as well as the ability to command a premium price. Unfortunately, investment in imported machinery and raw materials or components does not guarantee the absence of quality problems in the finished products. Poor quality results from many factors - inadequate production methods, shortage of skilled labor, poor machine maintenance, a lack of national standards, and a

^{104/} For examples of such consultation and liaison mechanisms, see Ezra Vogel Japan as Number One, Harvard University Press, 1979, and M.Y. Yoshino, Japan's Managerial System: Tradition and Innovation, MIT Press, 1968.

lack of knowledge of quality control management techniques.

6.18 Materials and Procurement Management. This problem is also common among most Indonesian firms, except for a handful of very modern companies, and it is most often observed in the production process or in transportation and distribution. Clearly, poor materials and inventory handling, and weak management increase wastage, production time, in-process inventories, and losses through theft.

6.19 Domestic procurement by larger firms of components and other materials, could serve as a powerful stimulus to entrepreneurship and small scale industry development. But the quality of Indonesian components is often inferior. The development of a professional purchasing function in Indonesian firms would mean enabling the purchasing department to call on assistance from engineering and other departments, to develop good Indonesian sources of supply. Although this is a major aim of the government, at present it is being done by only a few joint ventures.

6.20 Financial Planning and Management. Despite the recent progress of a few select firms in developing their financial staff, overall accounting, finance, and management information systems are not well developed in Indonesian firms. Entrepreneurs remain reluctant to permit outside scrutiny of their financial position, although this resistance is being tempered by the desire to obtain state bank loans. Moreover, as the banks themselves become better managed, they will require better record-keeping and financial management from their medium and large scale clients. The new tax reforms and improved collection procedures should also encourage this process.

6.21 As with public enterprises, many large private enterprises do not engage in medium term financial planning. Most financial managers see their role as ensuring that the enterprise is supplied with adequate funds; they are much less concerned with securing such funds on the most favorable terms. They often lack long term borrowing strategies and cost consciousness. The most efficient use of funds within firms is often difficult to assess, given the lack of qualified accountants and project appraisal capabilities.

6.22 Marketing techniques and research are largely ignored by most Indonesian firms, with the exception of foreign and joint ventures. Promotional strategies, product development and innovation are rarely undertaken. Domestic markets tend to be narrowly defined with well entrenched distribution patterns, constraining market penetration by new producers. Lack of familiarity with foreign markets and consumers renders export development a nearly insurmountable task for all but the very largest indigenous firms.

6.23 Under such circumstances, there is always a threat of foreign penetration of the Indonesian market, at the expense of local firms. Several years ago, some indigenous firms (e.g. shoe polish and soft drink producers) were driven out of business because of a combination of quality and marketing problems.^{105/}

6.24 Personnel Management. At present, this function is viewed primarily in administrative terms; only a few progressive enterprises are aware of the

recent advances in human resource management. Traditional personnel practices have tended to encourage conformity and conservatism and to discourage innovation and entrepreneurship. The status of personnel management and other related functions such as training is relatively low. Indonesian enterprises have almost no management development programs. Even fairly large enterprises do only limited manpower and career planning.

6.25 Technology Management. Technological change in Indonesia is bound to accelerate, given its present low base of industrialization and the rigors of international competition. The ability to manage technological resources at both national and company levels will have to be developed. Moreover, modern technology is profoundly changing the nature of managerial decision making, including R&D, information, marketing and production. The transfer and adaptation of this technology to Indonesian conditions will have to be guided carefully. At present, there is virtually no experience with negotiating suitable technology transfer arrangements with foreign sources, and the competence of local institutions to effectively utilize such technologies is extremely scarce.

Small-Scale Enterprises

6.26 There is an extremely high mortality rate for indigenous SSEs. The primary factors contributing to this are inadequate capital and poor financial management. For example, many small Indonesian entrepreneurs do not understand that carrying inventory implies a cost. Some are not even able to calculate the equity in their business. The small entrepreneur generally is unable to understand or predict shifts in his market and fails to use even simple advertising techniques. While many performance problems affecting SSEs are similar to those faced by larger firms, such problems can often force the smaller enterprises out of business. The potential for improving their operations through the introduction of simple accounting, costing, production and marketing techniques is thus enormous.

6.27 Cooperatives. Poor management - financial and otherwise - has substantially increased the cost of the cooperative program to the government. The cooperatives handle a large volume of agricultural inputs and products. But their storage, inventory and accounting systems are very weak, as is their managerial capability.

6.28 While the government considers the cooperatives to be in the private sector, they are largely controlled by the bureaucracy, with the result that the program often is viewed as a system generated and imposed by an external authority. A better balance that would ensure local initiative and commitment, and would help to identify local talent for management development, would better serve the cooperative movement.

105/ This is not meant to suggest that trade barriers should be erected to protect inefficient firms, but that quality and marketing improvements are imperative.

D. The Quantitative Gap and Patterns of Needs

The Quantitative Gap

6.29 Indonesia's strong economic growth during the late 1970's highlighted the shortage of adequately trained and experienced managers throughout all types of enterprises, but especially in the large companies competing internationally, such as the high-technology sectors. Signs of shortages are the frequent corporate piracy of experienced managers, the relatively high turnover of promising or competent managers, and the relatively high salaries they command. Our estimate is that there are some 160,000 private enterprise managerial positions (excluding the traditional and handicraft sectors) in Indonesia, and that this may be increasing by 10% annually.^{106/} There are about 11,500 places annually for formal management training in universities and private institutes, some of which are reserved for public enterprises and civil servants. The leading institutions offering management training to the private sector have only limited capacity which is generally filled by employees of a few leading companies. Thus management training for the majority of enterprises is quite rare. In contrast, in most developed economies, managers undergo some sort of training almost every year in the context of continuous career development.

6.30 Managers of small-scale enterprises generally do not have access to management training, though a few courses have been presented for their benefit, notably by KADIN. There could easily be 500,000 such managers and entrepreneurs who could benefit from managerial training tailored to small enterprises.

6.31 In the cooperatives there are 21,000 local managers, 80,000 unit heads and 130,000 directors. In addition, there are about 94,000 employees of

^{106/} Assuming 5% annual growth, 5% replacement, and 5% managerial ratio in the modern sector work force, the following table shows estimates of the numbers of present managerial positions by sector:

Sectors	Total employees (millions)	(1) Estimated modern segment (millions)	(2) No. of managers (2)=(1)x0.05
Manufacturing	4.4	0.9	45,000
Mining	0.4	0.1	5,000
Utilities	0.1	0.1	5,000
Construction	1.6	0.9	45,000
Transport	1.5	0.7	35,000
Financial	0.2	0.2	10,000
Agrobusiness	-	-	15,000
<u>Total</u>			<u>160,000</u>

the Ministry of Cooperatives in Jakarta, the 27 provincial offices, and the 300 district offices. Out of this total manpower of 325,000, the training target (1982) was 17,000 persons, or 5%.

6.32 Each of the three segments of the private sector exhibits special patterns of management needs.

6.33 Medium and Large Enterprises. The various management levels within medium and large-scale enterprises have specific needs. At the senior level, these include functional skill appreciation (permitting managers to understand the roles and management techniques of their subordinates); organizational effectiveness (business policy formulation), goal-setting, corporate planning; personnel management (manpower and career planning, motivation, human resource) and international business policy (trade matters, international marketing and production sharing).

6.34 As local corporations grow in size and sophistication, senior managers will require the ability to formulate business policies, and strategies. At present, top managers devote much time to operational problems, but little time planning for changes in the business environment. One explanation for this short term focus is managers' inability to delegate, given the significant gap in skills and experience commonly found between top managers and their subordinates.

6.35 Middle management needs to develop functional skills in the basic areas of finance, marketing, production, and personnel management.

6.36 Supervisory personnel need to learn basic management tools as they move from a worker to a first line managerial position. Some of these concepts may be easily acquired, but others are bound up with the fabric of Indonesian social relations. An important area for research is to learn more about the culture of the workplace in Indonesia, and about how supervisors react to and exercise authority.

6.37 Small-Scale Enterprises. Adequate data concerning the precise training needs of the small enterprise sector do not exist. However, it seems likely that improved marketing, cost control, and production planning could have an immediate impact on the profitability of many enterprises. Moreover, training should focus on practical, "hands-on" methods as the small entrepreneur generally does not perceive academic training as relevant to his needs.

6.38 Currently, small entrepreneurs have no channel of communication with government agencies responsible for their assistance. Some of these agencies appear to duplicate each others' responsibilities, especially in the production of training materials.

6.39 Cooperatives. The government has started a crash program to upgrade the cooperatives; it has recruited 3,500 managers, and some 12,000 to 15,000 business unit heads and accountants to meet a severe lack of trained persons in the local units. Clearly, this will create a huge need for management training. Presently, the government plans only a two-week training course for each new recruit.

6.40 Among the more important training needs are accounting, financial control, managing the relationship with cooperative membership and Boards of Directors, report writing, and personnel management.

E. Supply of Management Skills

Medium and Large-Scale Enterprises

6.41 Private institutes constitute the principal source of management training for medium and large scale firms; in general, the quality of such training is poor with the notable exception of the Jakarta Institute for Management Education and Development (LPPM). All Indonesian private companies interviewed were satisfied with the LPPM's training. Many state universities also offer short courses through their management institutes. Those at the University of Indonesia are of good quality, while other universities vary from fairly good to poor.

6.42 The quality of university graduates hired for entry-level management is not generally well regarded. The impression of many private enterprises is that the quality of business education is poor and course content does not address the needs of practicing managers. One prominent businessman suggested that successful managers be invited to teach. A fundamental reason for the inadequacy of such training is the relative isolation of management education from the business community (Chapter 7).

6.43 A few businesses may send very promising young managers to expensive foreign programs.^{107/}

6.44 Companies' self-generated management training and development is negligible. The concept of management development, that is, the acquisition of relevant experience, through structured on-the-job exposure to demanding situations, under the guidance of superiors and trainers, is unknown. Management training courses do not exist except in the largest joint-venture companies, where management planning, training and development is a top level concern. For example, in PT Astra, training activities are the responsibility of a general manager for recruitment and manpower planning. At PT Unilever, training is carried out by a professional staff under a general training manager. Many multinationals and most joint ventures, however, rely on training their local managers at the headquarters of the parent companies.

6.45 Small-Scale Enterprises. There are a large number of institutions intended to provide managerial assistance and training to small businesses. The most important are the Directorate General of Small Scale Industries (DGSSI) in the Ministry of Industry, and the Ministry of Manpower. DGSSI offers training and advice through a national extension program (BIPIK), while Manpower has recently initiated a program to promote self-employment of the

^{107/} At AIM, IMEDE, INSEAD, and the Arthur D. Little Management Education Institute. See Chapter 9 and background paper by LPPM on foreign sources of training.

graduates of vocational training centers. In addition, LPPM offers both 12 month and 3 month training programs for consultants to small enterprises. Finally, vocational and technical training (secondary) schools remain a major source for potential entrepreneurs.

6.46 None of these initiatives appear successful. The DGSSI extension agents are underpaid, poorly motivated, and inexperienced. A training program has been created through the efforts of DGSSI and UNIDO; but low compensation levels remain the primary constraint to performance improvement. Under the BIPIK program, nine provincial training centers have been established, and some universities have been contracted to provide training programs directly to small businessmen. These have proved unpopular as materials and teaching methods tended to be theoretical, and the teachers had little appreciation of small business problems. The Ministry of Manpower program lacks relevant materials, and trained teachers, and its centers are not responsive to prospective employers or market needs. Although the LPPM program produces well trained and motivated consultants, there is no employment niche for them in the system, either in the Ministry of Industry (whose low salaries are an effective obstacle), or in the state banks. Vocational and technical schools suffer from similar quality problems as the Ministry of Manpower centers, although some improved schools could provide a more promising base for the development of entrepreneurial skills.

6.47 In addition to being fragmented, government assistance to small enterprises is also centralized, designed at the national level by various ministries. Given the variety of needs of SSEs, as well as their geographic dispersion a centralized strategy for the design and delivery of solutions is clearly inappropriate. Yet there has been no central support for the initiatives of many local universities and institutes to provide management training and services to these enterprises.

6.48 Cooperatives. The Ministry of Cooperatives has established divisions for business development, organizational development, development programs, extension services, and guarantees for cooperative credit. In addition, it has established one central and 27 regional training institutions. A program to train trainers began in 1981 with ILO assistance, and it is hoped ultimately to have about 400 fully qualified trainers. Standard training materials have been developed for local cooperative managers, supervisory board members, bookkeepers, and the field personnel of the Ministry who oversee the channeling of government funds to the cooperatives. At present, the program is encountering difficulties in recruiting and motivating the trainers. Future efforts should address this problem and evaluate the relevance of the standard training materials to the special management development needs of rural cooperatives.

6.49 Management Consulting. Management consulting, still in its infancy in Indonesia, is carried on by private firms and also by institutes attached to university faculties. Much of the work to date has consisted of project feasibility studies; Indonesian business firms are not accustomed to using consultants to provide expertise on operating problems. However, the experience of such organizations as LPPM and the Management Institute of East

Java which have done consulting work in the areas of production, marketing and personnel management, indicates that this is beginning to change.

6.50 Given the scarcity of good managers, professional consultants could make an important contribution to economic development and the success of public and private enterprises. They could offer a variety of management services which even large companies might find difficult to generate internally. They could be important agents in adapting imported techniques to Indonesian institutions. For this to happen, however, there should be a significant strengthening of the profession and improvements in the national policies governing its development.

6.51 A first step in strengthening the consulting profession is the development of a strong professional association which ^{108/} should set standards of performance and ethics, and enforce them. The association should be encouraged and broadly developed to represent most of the profession. The general level of consulting skills could be raised through training offered by professional associations, through the provision of fellowships for overseas studies, and through incentives for quality services. Procedures for allocating government work to management consultants and leading management education institutions should emphasize higher standards for consulting firms.

F. Strategy for Business Management Development

6.52 An appropriate strategy for developing private sector management capabilities should focus on educational and environmental considerations. Firstly there is a need to improve and diversify management training and development institutions to make them more capable of transferring and adapting new techniques which are responsive to the diverse needs identified above. Actions may include the creation of centers of excellence in management education. These would set standards for quality improvements for the entire business management education system including software and faculty development; in addition they should have the capability to undertake research on a broad range of issues which are important to the business community and disseminate the findings of such work as appropriate. Private sector financing of these centers will be critical to their ability to respond to business needs and to maintain quality and innovation. Other actions may include incentives for quality improvements in private management education and management consulting.

6.53 While the primary focus of management development institutions is expected to be on medium and large enterprises, some experimentation with

^{108/} INKINDO, (the Indonesian National Consultants Association) is the most likely vehicle for strengthening the profession, but it needs some fulltime managerial and support staff to permit it to expand its activities into promotion of consulting and control of professional ethics. The Consultancy Development Team (TPPK) is the likely forum for formulating policies for professionalizing and developing management consulting.

"outreach" programs and correspondence courses may be necessary to address some of the common problems facing the large pool of small enterprises. Assistance for small scale enterprises will require imaginative solutions and experimentation. Programs for managerial and technical extension and support services should be as decentralized as possible. Small business management consultants could be trained (at LPPM, for example) and then placed at the state banks that are handling the small credit programs. Local and regional organizations, including those in the private sector should be involved. Local coordination of financial, technical, training and other inputs of national programs. For cooperatives, there is an urgent need to review present personnel policies, including the recruitment and training of cooperative managers. The objective should be to ensure management from the bottom up that would bring cooperatives closer to a business management culture. Cooperative training institutions and teaching materials would be reoriented and strengthened accordingly.

6.54 The strategy should devise measures to make the business environment more supportive of management performance and to mobilize in-house and self help management development activities. Recognizing the difficulty of entrusting a single body with policy and program responsibility for management development, this report proposes various linkages among existing institutions to address these needs.

6.55 It will be important to encourage a national movement for management development which could stimulate self-help and support initiatives at various levels and in various forums. This movement would be closely linked to any national effort for productivity improvement. Policy and promotional forums for management development should be encouraged and supported (see para. 8.09-8.11). A national philosophy of management may be articulated over time and based on research on successful management practices and commitment to explicit social purposes.^{109/} This philosophy may provide a normative force for the national movement, promote attitudinal changes in managers, and generate a shared understanding of the field conditions under which Indonesian managers operate. Annex 1 to Chapter 8 provides some examples on the role of a national movement and philosophy for management. Annex 2 to Chapter 8 provides a synopsis of Japan's experience with developing a national movement and philosophy to guide and stimulate mass participation in modernizing management practices, borrowing and adaptation.

109/ The importance of such a national philosophy on management may be appreciated from such works as Francis X. Sutton et al, The American Business Creed, Harvard University Press, 1956 and M.Y. Yoshino, Japan's Managerial System, Op. cit. Sutton defines business philosophy or ideology as a "system of beliefs publicly expressed with the manifest purpose of influencing the sentiments and actions of others" (Ibid, p.2.). It is to be shaped in relation to cultural heritage and awareness of future challenges.

CHAPTER VII. FORMAL EDUCATION FOR MANAGEMENT DEVELOPMENT 110/

A. The Structure of Higher Education

7.01 Formal management education is provided by the universities, public and private, mostly at the undergraduate level, and by management academies in the private sector.^{111/}

7.02 Indonesia in recent years has accomplished significant progress in broadening access to education at all levels. Nevertheless, despite its present annual growth of 15%, post secondary enrollment now totals only 500,000, or about 4% of the population between 19 and 25 years of age. This, together with the age structure of the population, i.e. 30% under 10 years of age, suggest that rapid expansion of tertiary education will be necessary for at least another decade to begin to meet Indonesia's manpower requirements. The present university output is projected to meet only about one-fourth of high level manpower needs in the 1980s in engineering, science, economics and management. The present total output of Masters' and Ph.D. graduates could not meet even half the teaching staff required for the currently projected expansion of universities between 1984 and 1994.^{112/}

7.03 The Directorate General of Higher Education (DGHE) is the government body responsible for overall supervision of higher education, including policy formulation, curriculum development, and performance evaluation for all public universities. In these efforts it is assisted by consortia, established for each major discipline, consisting of representatives of government and academia (but not the private sector) whose particular responsibility is curriculum

110/ For detailed analysis to this chapter, see Nagy Hanna, the Educational Environment and H.C. de Bettignies, Management Education and Training, both background papers to this study.

111/ For a description of the system of higher education see D.A. Tisna Amidi. An Overview of Higher Education in Indonesia with Special Emphasis on Science and Technology, 1982. The public education institutions include 30 universities, 14 institutes, 7 Academies of Arts, and 6 Polytechnics. For private institutions, see J. Tolhurst. "Private Higher Education in Indonesia", Discussion paper prepared for the World Bank, May 1983. Private institutions (1980/81) include 64 universities, 34 institutes, 69 colleges, and 190 academies and the number of such institutions is growing each year; these include institutes of higher learning set up by government departments other than the Department of Education. Their degrees or diplomas are not officially recognized by the Department of Education.

112/ Assuming 15% annual expansion during 1984-94; about 80% of graduates with advanced degrees will go into university teaching; and only 1% attrition rate of present faculty.

planning, to be reviewed and revised every two to three years. University participation in these consortia tends to be somewhat passive, and the absence of representation by potential employers tends to isolate curriculum development from the requirements of end-users. Moreover, DGHE in general is managed by university staff on temporary secondment with little or no management or sector planning experienced. These factors obviously weaken the process of sector planning, curriculum development, and accountability.

Sectoral Constraints

7.04 Despite impressive progress in the education sector as a whole, there are a number of sector level constraints to improved management and development of the university system, with important implications for management education.

7.05 Educational planning and policy research are relatively weak. One factor contributing to this is the limited capacity to identify employer's needs and to adapt accordingly. Comprehensive and reliable system of data collection for performance analysis at the sector level is lacking. There is considerable duplication and waste in the data collected by various branches of the Ministry, and the processing of such data is usually rudimentary and without reference to the requirements of its ultimate users. Similarly, the planning, budgeting and funding processes tend to be fragmented, oriented toward the short term, and seldom examine alternatives for qualitative improvements.

7.06 Given the size of this sector, its decision making structure is highly centralized.^{113/} Centralization has tended to discourage local initiative and responsibility and has limited horizontal coordination at the regional level and collaboration among educational institutions. At the same time, the central systems have not been able to provide the necessary support to weaker institutions or lagging regions.

Constraints at the University Level

7.07 Salaries offered to university teachers are very low. This clearly affects the caliber of people attracted to the profession. In addition, university staff often find it necessary to hold other jobs to supplement their incomes, leaving little time for class preparation and student contact. Moreover, with stringent financial constraints facing most universities, teaching materials, library facilities, laboratories and textbooks are frequently of poor quality and outdated.

113/ The Ministry of Education has responsibility for 1.5 million out of Indonesia's 3.0 million civil servants; it has the largest development and routine budgets of any ministry; and it has the planning and management responsibility for 150,000 organizational units (schools and universities). Given the imperative for education sector expansion and present productivity and quality constraints, this ministry is a prime candidate for ministry-wide institutional and management development effort (see Chapter 3).

7.08 In addition, the management of most universities suffers from three important weaknesses: lack of experience and continuity among managers, poor coordination among faculties, and inadequate performance data. First, the universities' administrative staff are generally seconded from the regular academic staff for a limited period, during which they carry modified teaching loads. Rectors and deans are changed every four and three years respectively, disrupting continuity in administration. Thus, there is a need for a cadre of permanent, professional managers to organize and supervise university resources (e.g., examinations, student records, personnel, physical facilities, management information) and provide administrative continuity and consistency. Second, the lack of coordination between faculties and subject departments gives rise to duplication of services, inconsistencies in academic and administrative standards, and inefficient use of resources. There is a clear need for accountability and rationalization of services. Finally, universities lack information to monitor and evaluate the implementation of different policy measures and to feed information into planning and monitoring at the DGHE level. Significant efforts are underway to address some of these constraints.

7.09 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.

B. Business Management Education

Assessment of the Gap

7.10 The gap between the demand for and the ability to supply management education is difficult to quantify. However, there are many signs to suggest that potential and actual demand for management education far exceeds the present supply capacity. Applications to good economics faculties (most of which end up in the business management program) far exceed admission levels. In 1980, about 6,000 candidates applied for admission to the Faculty of Economics at the University of Indonesia; only 250 were admitted. Graduates of good management schools command about twice the average salary of a university graduate at their entry-level. Management needs, as discussed in Chapters 5 and 6, are quite pervasive, while the percentage of managers in large enterprises with management education is extremely low in comparison with other Asian countries. As the management profession matures from its present nascent stage and as the enterprise sector grows, demand is bound to increase. On the supply side, virtually all qualified, management educators are overextended, as their workloads often include teaching at several state universities, public and private institutes and perhaps even at technical schools.

Management Education at Public Universities

7.11 There are no separate facilities offering business/management education in the 22 state universities. Instead, these programs are offered under an overall Faculty of Economics, along with development economics and accounting. Some social science or public administration faculties also offer business administration programs at the same universities. The most common degree awarded in business management in Indonesia is the Bachelor's. The majority of business administration students from public and private universities, and institutions graduate with a diploma based on a junior college type program. Through 1983, there were no graduate degrees awarded in business administration. In that year, Master's programs were begun at the Universities of Indonesia and Gajah Mada, and MBA programs are planned for a few other state and private institutions. Few faculties of engineering and medicine offer courses or degrees in industrial management or public health administration.

7.12 Many faculties of economics at state universities have management institutes, set up to provide consulting and training services to businesses and government. The stronger universities offer a good variety of short courses and consulting services. The Management Institute at the University of Indonesia is one of the strongest; many of its staff have graduate degrees from foreign institutions. However, as the faculty is drawn from the regular university instructors, with little or no business experience, outside businessmen are frequently used as guest lecturers. The clientele for these training courses includes civil servants, and public and private managers. Its consulting (and research) work emphasizes short term, income producing activity, mainly feasibility studies for government funded projects. There are management institutes at about 18 other state universities; most of them, however, are extremely weak.

7.13 The state university management institutes are oriented towards public service and, as such, will often charge lower fees for government consulting or research work. In turn, the government steers much of its work toward the institutes. These management institutes are thus relatively user-oriented, compared to most of the university's other business activities. These institutes offer perhaps the main source of income for the faculty and are thus essential to retain some good faculty members in the more advanced universities.

Productivity, Quality and Relevance

7.14 The productivity of the system is extremely low. With a total enrollment in business programs of over 92,000 students in 1980, only 1,840 were graduated. Public universities attained an average internal efficiency of about 7% (defined as the ratio of graduates in any one year to total enrollment) while private universities attained only 1%. The following table shows efficiency ratings for public and private universities (in 1980).^{114/}

^{114/} See Annex 1 to this chapter for details.

7.15 The time spent in obtaining a first degree in business is too long: it generally takes about eight years to complete a five year undergraduate curriculum.^{115/} A severe difficulty faced by many fifth year students is completing the dissertation requirement, as they often have never done research, or written any paper other than an examination, since they entered the education system. In addition, professors are rarely available to help students design a proposal, or advise them during writing.

7.16 There are wide variations in productivity between universities and even among faculties within the same university. Where business management programs are offered at more than one faculty within the same university, productivity and quality are usually higher in the economics faculty. Quality tends to be much lower outside the few leading universities and at universities in less developed regions outside Java. Research into the reasons for these variations is needed to formulate specific reforms.

Table 7.1: ENROLLMENT, OUTPUT AND EFFICIENCY OF UNIVERSITIES
IN MANAGEMENT EDUCATION (1980)

University	Enrollment	Output	Internal efficiency (%)
Public	18,901	1,288	6.8
Private	73,164	554	0.8
<u>Total</u>	<u>92,065</u>	<u>1,852</u>	<u>2.0</u>

Source: Mission Estimates and Ministry of Education.

7.17 Unlike most academic areas, professional management education has to be experientially based. Management candidates have to be exposed to case work and other teaching materials that reflect the real life problems they will encounter on the job. Teaching materials must reflect local conditions and teachers should be familiar with the business environment outside the university. As yet, these conditions do not exist in Indonesia, where management teaching has been essentially transplanted from foreign sources, without adequate adaptation. Virtually no local research has been undertaken to bridge this gap. Without sufficient adaptation to reflect the realities of Indonesian management, a student's knowledge of the behavioral and social sciences remains abstract. The isolation of management education from the problems of Indonesian environment often leads to an uncritical acceptance of Western management principles, or a rejection of local realities.

^{115/} With the introduction of a credit system and four-year (SI) program, the average time spent is expected to be shortened to 6 or 7 years.

7.18 In general, management teaching methods in Indonesia are not action oriented. The classroom based and lecture dominated methods of management education have deeper roots in the prevailing methods of teaching throughout the education system. The bad habits of work learned in the early stages of schooling - overdependence on rote memorizing, intellectual passivity, the uncritical acceptance of presented facts, and failure to link concepts to real life situations - tend to stay with the majority of students throughout their formal education. These are reinforced through methods of examinations and teachers training. Teachers cannot easily unlearn skills, attitudes and learning habits they developed in their own study. Moreover, senior faculty tend to resist curriculum changes, particularly if they involve demands on their time or their re-education. With an increasing student body and limited full-time faculty, the lecture method is the only way to accommodate demand.

7.19 The shortage of supplemental instructional materials reinforces the inclination of teachers towards the lecture method and rote learning. Business education departments have limited and mostly foreign reference materials. Individual study and use of printed materials to supplement classroom work are therefore not generally a part of the learning process.

7.20 Since they are administered under the Economics Faculties, business management curricula are heavily quantitative and technique oriented, and dominated by economic courses. Techniques and quantitative methods, unlike behavioral aspects of management, can be transferred with little or no adaptation. Business curricula neglect social and behavioral sciences as well as attitudinal changes. More emphasis needs to be given to "integrated" courses covering business policy and strategic planning. This may be partly due to the orientation of the economics consortium, which is responsible for setting the curricula for business management. Little attention has been given to improving the business curriculum, despite the overwhelming number of students enrolled in such programs.

7.21 The relevance of management education to the actual problems of Indonesian managers is often questionable. There are no mechanisms in place to analyze the diverse markets and needs for management skills and assess the quality of the present output in light of these needs. The economics consortium, as presently structured, is inadequate for addressing the special needs of management education or representing the diverse interests of potential employers. Finally, since all public universities do not have independent faculties of management, appreciation of the qualitative difference between other academic disciplines and management programs is not adequate.

7.22 The relevance of education (at all levels) to the development of small businesses and entrepreneurship is of special national significance in Indonesia. A sample survey indicated that a majority of Indonesian respon-

dents believe that entrepreneurship can be taught.^{116/} Respondents, however, did not believe that Indonesian primary education encouraged the development of entrepreneurial qualities. Within the secondary public school system, only vocational and technical schools offer courses dealing specifically with entrepreneurship. Teachers' responses to a questionnaire in the same survey indicated above average risk aversion - they preferred a small and secure present income to a large but uncertain future one. At the university level, most graduates of business management choose to work in public administration, public enterprises or large (foreign and joint-venture) private enterprises. This suggests that this education focuses on managerial techniques and concepts that are relevant mainly to large or bureaucratic organizations.

7.23 University level constraints (particularly teachers' incentives for quality teaching and weak mechanisms to ensure relevance of educational programs to Indonesian development problems) have special and more serious impact on management education than on other academically based disciplines. Effective management education requires process oriented teaching, adapted teaching materials, intensive student teacher contact to solve practical problems, and research on Indonesian management practices. Yet, the abundant opportunities available to management educators for routine consultancy and teaching have sapped the management profession of the indigenous intellectual resources necessary to meet the requirements for effective management education and quality research. Some of the ensuing vicious circles are depicted in Figure 7.1.

Management Education at Private Universities and Institutes

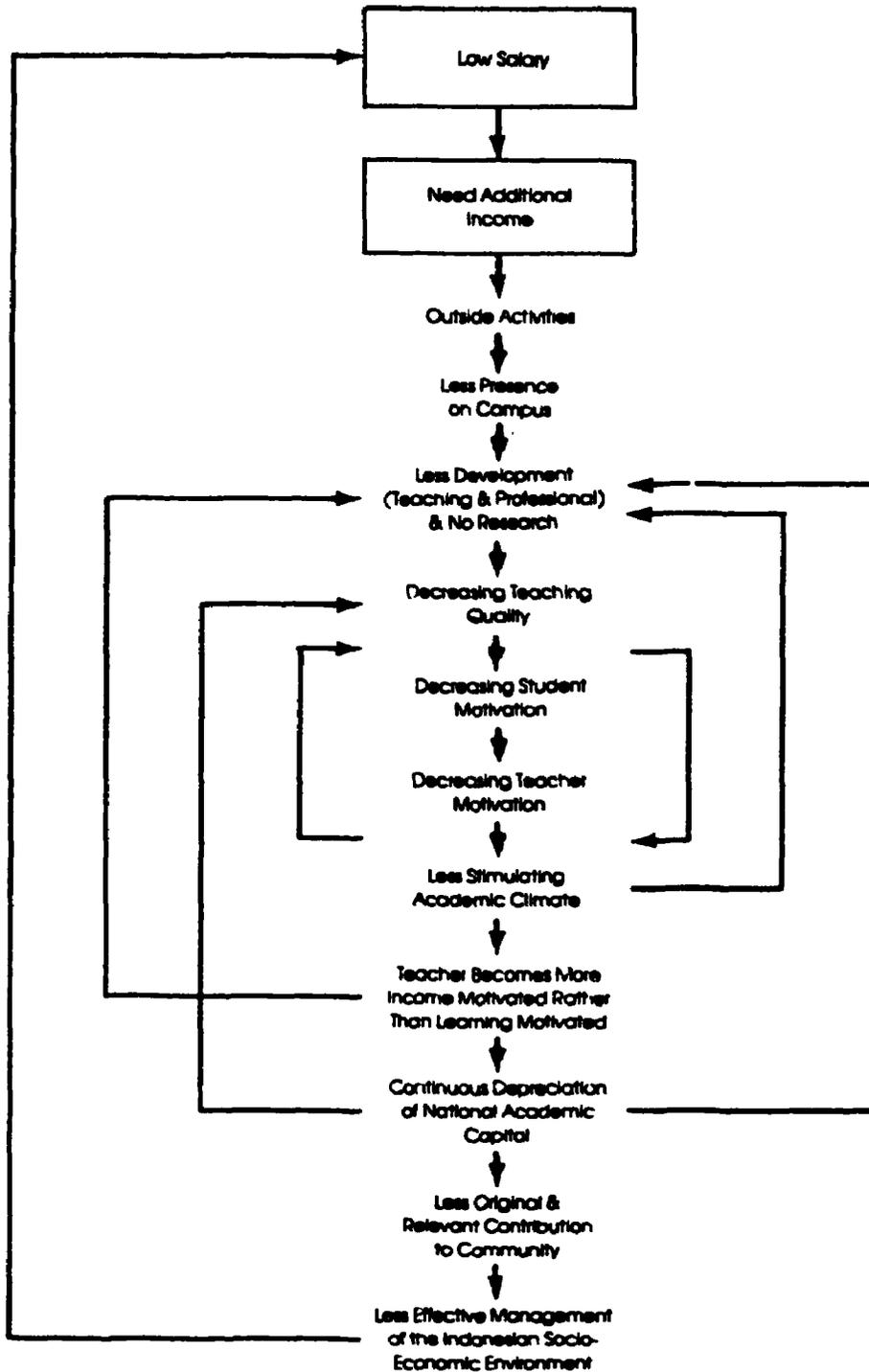
7.24 As of 1980, 52 private universities and academies offered some management and accounting programs. Most of these are quite small but a few have enrollments of 7-10,000 students. It is estimated that about ten of these institutions are fairly strong in terms of standards, faculty qualifications, and output. At present, faculty members are almost all part time (from the state universities and government bureaus) but some institutes are now trying to recruit full time faculty. The private schools share many of the same problems as the state schools, but they are not constrained by civil service salaries, and they are better able to experiment with curriculum. (Private university programs must however be approved by the DGHE in order to be accredited.)

7.25 The Institute for Management Education and Development (LPPM) demonstrates what a private management institute can accomplish with adequate front-end investment. Established in 1967, with some support from Ford Foundation and other aid agencies, it offers a ten month, full time program in management for fresh graduates of Indonesian universities. Student pay no tuition fees, but are sponsored by private companies at a cost of \$4,500 each (1983). In addition, LPPM offers 37 different short management courses, which are extremely popular with private and public enterprises. LPPM's faculty of 72 is well compensated and full time.

^{116/} Lasserre, Philippe: Op. cit., pp. 42-46.

Figure 7.1

The Vicious Circles of Quality Problems In Management Education



7.26 The Management Institute of East Java (MIEJ), located in the industrial city of Surabaya, started in 1971, attempted to replicate the success of LPPM with support from private enterprise, regional public enterprises and the civil service. Recent management changes and declining activity suggest this institute has yet to reach its potential. A new management institute in the Sumatran city of Palembang, begun in 1983, to serve local small businesses also shows promise. Its initial activities appear to be entirely market-driven. All faculty training is taking place at LPPM. Similar initiatives are reported in Ujung Pandang, in Sulawesi and in Medan, Padang, and Bandung.

7.27 There are several new initiatives to promote graduate level management education at three private institutes: the Institut Manajemen Prasetija Mulya, funded by the Chinese business community, now offers one year MBA program with materials and teaching in Indonesian; the Indonesian Foundation for Management Development, founded in 1982, supported by the Minister of Cooperatives and the local business community, has just started to offer a one year MBA program in English; and LPPM is planning to offer a one year MBA program in Indonesian, in 1985.

Financial Issues

7.28 Most private management institutions have great financial problems. Their operating expenses are financed entirely from tuition fees which are insufficient to meet their investment requirements. Moreover, they do not have access to external funding for their faculty and facility development as do leading state universities. Most private universities thus lack a critical mass of student and faculty to allow economies of scale in providing quality education.

7.29 The Government does not provide private institutions with any significant subsidies, despite their accounting for more than half of total university enrollment. In contrast, public universities recover less than 15% of recurrent costs through tuition fees. One potential source of funding for private institutions is the commercial banks, which, thus far, have not generally viewed private universities as good commercial risks.

7.30 The private sector in Indonesia has demonstrated its willingness to finance management training. Both LPPM's short and longer term courses have heavy enrollments. The Indonesian Foundation for Management Development has raised over \$2 million from private companies for its proposed MBA program. Despite this commitment, government financial support will be necessary for top quality training and for development of future management teachers and trainers in Indonesia.

7.31 Several options exist for financing management education. Assistance to a few selected private institutions (through direct grants for subsidized loans) may be more economical than increasing reliance on state universities. Encouraging the business community, including multinational, to finance management education should be pursued. Tax incentives could be provided. A national management movement could be used to encourage such commitment. However, private funds alone are unlikely to be able to finance a

broad-based top quality management education, especially if such institutions are to benefit public enterprises and hopefully other public institutions.

7.32 Other financing options include raising tuition fees in state universities while providing loans to ease the burden on poor students. Scholarships and loans could also be directed to promote enrollment in fields with particular manpower shortages, such as management teachers.

C. Public Administration Education

7.33 There is a growing need for public administration education. Government programs and institutions have grown in number and complexity, while the majority of civil servants has had no training in public administration. The bureaucracy now requires more professional and analytical skills to carry out necessary reforms. The present supply capacity at state universities is extremely low, and private institutions do not offer many public administration courses. Effective demand has been strongest where students are already civil servants with guaranteed employment and where their fees are paid by their employers. Annex 2 to this chapter provides a case study of the leading and oldest public administration program in Indonesia, at Gajah Mada University.

7.34 Faced with such supply constraints, most ministries have created their own educational and training institutions or relied on the Institute of Public Administration (LAN). Moreover, the Ministry of Home Affairs still provides degree programs in public administration for its employees: the provincial academies, APDNs, offer diploma level courses, and the Institute of Government Science, IIP, offers Bachelor degrees.

7.35 This situation has created several problems. First, students at the degree granting institutions such as IIP and LAN have been deprived of the disciplinary base and academic environment of the universities. The existence of degree programs in public administration outside the university system may also have contributed further to the fragmentation of such scarce resources as full time faculty. Second, departmental in-service training in public administration lack qualified trainers, and relevant teaching materials. LAN and the universities, already overwhelmed by their present assignments, could not provide the necessary intellectual inputs to these departmental training centers.^{117/} Third, the focus on remedial in-service training has reinforced the theoretical orientation of public administration training. Finally, with degree programs provided by the departments, many civil servants receive all their post-secondary education at a departmental academy, move directly into the department, spend all their working years in that setting, and if they receive any in-service training at all, it is through courses conducted by the same department. This reinforces civil service fragmentation.

^{117/} Such inputs may take many forms, such as case studies, training of trainers, teaching and library materials, and continuous research into the specific administrative problems of Indonesia.

Productivity, Quality and Relevance

7.36 The productivity of public administration education is low (about 5%), especially in the private sector (about 1%), as shown in the table below.^{118/} This reflects the fact that the majority of students enrolled in private institutions terminate with a diploma (Sarjana Muda), rather than a Bachelor's degree (Sarjana). Some leading faculties have established Ph.D. programs in public administration, but with inadequate research facilities they are generally of poor quality.

7.37 The quality and relevance problems of university public administration courses are similar to those of university business management courses discussed above. Public administration training suffers from the isolation of educational institutions from employers, the lack of adaptive research, fragmentation of faculties, and the absence of collaboration among educational institutions. Some additional factors specific to public administration are worth mentioning. Public administration programs are taught by faculties of social sciences, political sciences, law and/or public administration. They are thus fragmented among more faculties than even business management. Prevailing public administration thinking is preoccupied more with controls and maintenance, than with motivation and development. Independent evaluation of public programs and research on implementation are discouraged, as the bureaucracy is, by tradition, closed to outside scrutiny and empirical research, thus reinforcing the gap between borrowed theory and practical problems. Important, but sensitive issues such as corruption, are not examined. There is also a high level of "in-breeding" within faculties, (especially with the availability of in-country Ph.D. programs) in public administration. Finally, public administration education has focused only on national issues and neglected regional administration problems; Brawjaya University has the only faculty in the country with a degree program in regional administration.

Table 7.2: ENROLLMENT, OUTPUT AND EFFICIENCY OF UNIVERSITY PUBLIC ADMINISTRATION EDUCATION (1980)

University	Enrollment	Output	Internal efficiency (%)
Public	7,048	624	8.8
Private	8,127	79	1.0
<u>Total</u>	<u>15,175</u>	<u>703</u>	<u>4.6</u>

Source: Annex 1.

118/ For details see Annex 1 to this chapter.

D. Rationale for a Strategy

7.38 The primary issue that must be addressed in formulating a strategy for developing management education is how to manage qualitative changes in such a large education system? Qualitative changes are complicated by the nature of the teaching profession and the unity of the education system which make them resistant to top down reforms and short-term interventions.

7.39 New teaching methods involving new aims, skills and attitudes will be ineffective unless they are understood and accepted by each teacher as his own in his "closed" classroom. Without teachers and administrators having both the interest and freedom to experiment, no real changes will occur in classroom practice. Qualitative improvements require changes in organizational climate and norms. To support qualitative changes, it will be necessary to develop incentives to seek professional excellence, sources for new ideas, and leaders to guide them to a promised land of new practices. Other measures may include training of work teams or a sufficiently critical mass of a faculty at a time, and building networks of mutually supportive institutions (which may involve teacher training institutions, and professional and employers' associations) to sustain behavioral changes.

7.40 Changes in classroom practice, in particular, require substantially different skills, structures and strategy for sector management. They require an experimental and learning strategy, and intensive efforts in defining qualitative objectives, in measuring progress towards them, and in evaluating innovations. They also require sustained follow-up to the initial inputs (e.g., new curricula), exposure of teachers to the example and scrutiny of his colleagues, better communication, and supporting forums. Teachers will need encouragement to accept new practices by involving them - through their professional organizations - in the design of improvement programs, and by giving teachers sufficient incentives for quality teaching and research. Finally, a movement for reform will require not only influencing the new generation of teachers through pre-service training, but also reaching out to support them in their practice.

7.41 What do these requirements imply for the future administrative structure and management of this sector? They would require an administrative style that stimulates initiative and commitment in individuals of varied abilities, and devolution of authority and resources to give institutional managers adequate means to stimulate local innovation and experimentation. Pilot projects and centers of excellence may be used to pioneer improvements and to provide sufficient autonomy to bring about innovations. Yet, pilot projects and leading centers need to be planned within an agreed long term strategy that would address national priorities, test promising innovations, and disseminate successful practices. This implies a central management capacity to identify successful innovations, whether as a result of private initiative or official stimulation, and then to experiment with their transplantation and diffusion.

7.42 The above suggests the need to establish a proper balance between central drive and local initiative. Without a coherent strategy and clear evidence that national policymakers are intent on bringing about change, individual teachers and institutions are unlikely to change present practices and strike out boldly on their own. In turn, adequate incentives and autonomy to the pioneers are needed to enable them to explore and experiment within the broad line of advance, to respond to diversity, and to sustain commitment.

7.43 The broad elements of a strategy for developing management and public administration education may be suggested; they will be detailed in Chapter 8. First, there should be an intensive effort at developing centers of excellence to lead adaptation and quality improvements. Annex 3 to this chapter reviews the experience of the Indian Institute of Management as a good example of a center of excellence for management education in a developing country. Second, there should be a long term effort to create a broader base of institutional capability at state universities to provide for the necessary quantity of trained candidates for managerial jobs. Third, professionalization of management calls for a movement toward post graduate management education, and the separation of that education from the economics faculty. Fourth, there should be recognition of the importance of the role of private management educational and training institutions in solving the problem; accreditation and selective support for the most promising of these institutions would be cost-effective. Finally, qualitative changes call for experimentation and innovation, for collaboration among management development institutions, and for managerial systems and supervisory styles that promote and support innovation and excellence in education.

7.44 In building its centers of excellence, Indonesia should avoid some of the pitfalls of American business schools (narrow technical and disciplinary orientation, quantitative bias, inadequate attention to interpersonal relationships and short term view) and define its own terms of excellence and relevance.^{119/} Leading educational centers should aim at producing graduates, not for multinationals, but for Indonesian organizations. The leading centers should act as agents of change by training future faculties of management, developing the software for Indonesian management education (research, case studies, teaching materials) and establishing management consultancy and research standards. They should attempt to influence managerial practices directly through action research, developing outreach strategies to improve management in the less organized (informal) sectors, and orienting management consultancy towards enhancing the capacity of organizations to learn and adapt.

7.45 The university-based management and public administration programs should complement the autonomous leading centers through a gradual improvement in both quantity and quality of graduates. Upgrading programs should create a critical mass of motivated faculties at selected universities and develop the

^{119/} For a critique of American business schools and proposed reforms, see Jack Behrman and Richard Levin, "Are Business Schools Doing their Jobs?", Harvard Business Review, Jan-Feb, 1984, No. 1, pp. 140-147.

necessary conditions (incentives, independent faculties of management) to sustain a learning oriented organizational environment. Upgrading efforts should also reflect the diverse needs of different regions and segments of the economy. Selected universities' programs should be developed to focus on post graduate programs (Master's level) for more mature and experienced candidates. Selective support to private educational institutions should aim at supporting grass roots management development efforts and promoting experimentation with programs of national significance such as training of management consultants for small enterprises.

7.46 The curricula of management and public administration education should aim to equip potential managers with experience and skills that are relevant to Indonesian managerial problems. Students should develop better study habits, and research skills; they should acquire a personal commitment to continuing education and development. Curricula should elicit and promote a leadership role for management; future managers should see their roles less as regulators, and more as shapers of norms, institution builders and motivators.

7.47 These reforms imply new roles for teachers and deans, and changes in faculty recruitment, motivation and development. Teaching areas should be coordinated so that professors can remove their disciplinary blinders and begin to think in policy and strategy terms. Graduate programs for teachers, should develop management scholars who have broad appreciation of the business environment and business policy and strategy as well as of the theory and tools. Faculty may be given leave (sabbatical) to work in industry and government offices and to conduct research on Indonesian management problems.

7.48 Finally, employers should assert their needs and develop mechanisms to ensure that management education institutions are responsive to these needs.

VIII. A STRATEGY FOR MANAGEMENT DEVELOPMENT 120/

A. Conclusions From Previous Chapters

8.01 The preceding chapters have analyzed the managerial environment, and its common problems, along with management education, training and development policies and institutions. From this analysis, five broad conclusions emerge:

- (a) certain historical and cultural factors, and dominant management practices tend to inhibit the development of effective entrepreneurs, managers and management systems;
- (b) there is a significant imbalance between the economy's need for qualified managers and its present capacity to develop such staff; only a very few organizations have management development systems or succession schemes; there are also major deficiencies in the quality and relevance of management education and training now offered at universities and in-service training institutions;
- (c) local management consultancy and research capabilities are quite weak;
- (d) policy reforms, (especially in the areas of planning and budgeting, civil service policies, and government regulation of business and industry) are required to improve managerial performance, the effective utilization of trained managerial personnel, and the quality of management education and training; in general, there is little capacity within the bureaucracy to design and monitor administrative reforms;
- (e) nevertheless the potential exists for significant managerial, institutional, and environmental improvements given a strong national commitment and an appropriate policy framework.

8.02 Based on these conclusions, this report proposes a comprehensive strategy for management development in Indonesia. Given a sufficiently strong national commitment to improving Indonesia's managerial capability, this strategy aims at achieving near self-reliance in management education and training, reforming key administrative structures and significantly improving managerial systems and practices, all within a ten year period. This is an ambitious but feasible target for Indonesia.

8.03 The planning and coordination required to implement the interdependent elements of this program may at first appear onerous. To facilitate this task, we suggest various organizational measures, including various forums and

120/ For details, see background paper "A Strategy for Management Development in Indonesia" by Nagy Hanna and Samuel Paul.

task forces, decentralized implementation, support for local initiatives, continuous review of progress, and phasing of actions. An Action Plan is proposed later in this chapter (Section D); it comprises those elements of the overall strategy which can either be implemented immediately and have the potential for significant near term benefits, or which must get underway quickly as they are necessary precursors to other proposed measures.

B. A Strategic Approach to Management Development Over the Next Decade

8.04 The proposed long-term strategy takes account of past experience with administrative reforms and institutional development, the existing institutional framework in Indonesia, and comparable international experience in management development. The latter suggests the need for representative policy forums, visible political commitment, and broad participation of policy makers and top managers in shaping the environment and incentives for management development. In addition, environmental and policy changes will be necessary for substantive and sustainable institutional improvement. Complementary public and private (self-help) actions will both be required.

8.05 The proposed strategy may be viewed as a long term change process in large-scale social systems.^{121/} Both readiness (namely the attitudinal and motivational energy for change) and organizational capacity for change are needed to carry out this process. The kinds of changes needed include: (i) changes in managerial skills, styles and attitudes; (ii) changes in the way managers are developed within their own organizations and formal external education institutions; (iii) changes in the relationships between educational institutions and their clients, between the central guidance agencies (the designers of administrative systems, procedures and policies) and the technical departments, and more generally between organizations and their environments; and (iv) changes in the reward and information systems and in resource allocation and regulatory policies as they influence management performance and development.

8.06 The proposed strategy relies heavily on senior managers and other leaders, who can take the lead in raising public awareness of management issues and developing their own organizations. Various measures are suggested to create a climate for change, including national workshops, a public campaign, and a national movement for productivity and management development. Intensive development of a few key educational institutions is also proposed to provide models of excellence in education and research and to become national resource centers for other management development efforts. Pilot projects, experiments and research will be important ingredients in exploring alternative options. Given the impracticality of imposing a long term blueprint for management development, especially for such a large country, an on-going process of review and adaptation of prevailing managerial practices is recommended. Institutions which influence the broad administra-

^{121/} For a review of strategies for change in large social systems see Richard Beckhard, "Strategies for Large System Change," in Sloan Management Review, Winter 1975, Volume 16, No. 2.

tive environment and those whose leadership is ready and committed to improvement should be singled out for early assistance. Other measures whose implementation could get underway fairly quickly include overseas training for selected university faculty, assistance to promising new management institutes, study tours abroad to expose policy makers and business leaders to successful management development efforts in other countries, and the development of professional associations. In addition, an early review of compensation policies, in both the public and private sectors, might be undertaken.

8.07 This process should be managed insofar as possible by the target organizations themselves and by their senior managers who critically influence their organizations' managerial styles and systems. When and as necessary, such managers may wish to engage outside institutions with special expertise in management training, consultancy and research.

8.08 This strategy envisages the creation of management forums and task forces to induce commitment, mobilize resources, and study and recommend administrative reforms and policy measures, as appropriate. It proposes selective assistance to a few educational institutions to reorient and reform management education, and to develop management consultancy and research capabilities. While in-service training for lower level management should focus on developing the skills necessary for operating existing managerial systems, top-level management development should aim at preparing leaders to initiate and manage structural and policy changes. Supporting efforts are proposed to develop scarce key resources: faculty, teaching materials, appropriate pedagogy, and management consultants and researchers. Other support programs are intended to generate commitment at the highest levels of management through exposure to models of excellence abroad or to promote mass involvement in management development. Finally, the strategy proposes a process for reforming key public systems and policies to improve managerial and institutional performance in the public and private sectors.

8.09 The four basis elements of the proposed strategy are:

- (a) Forums and Processes 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.

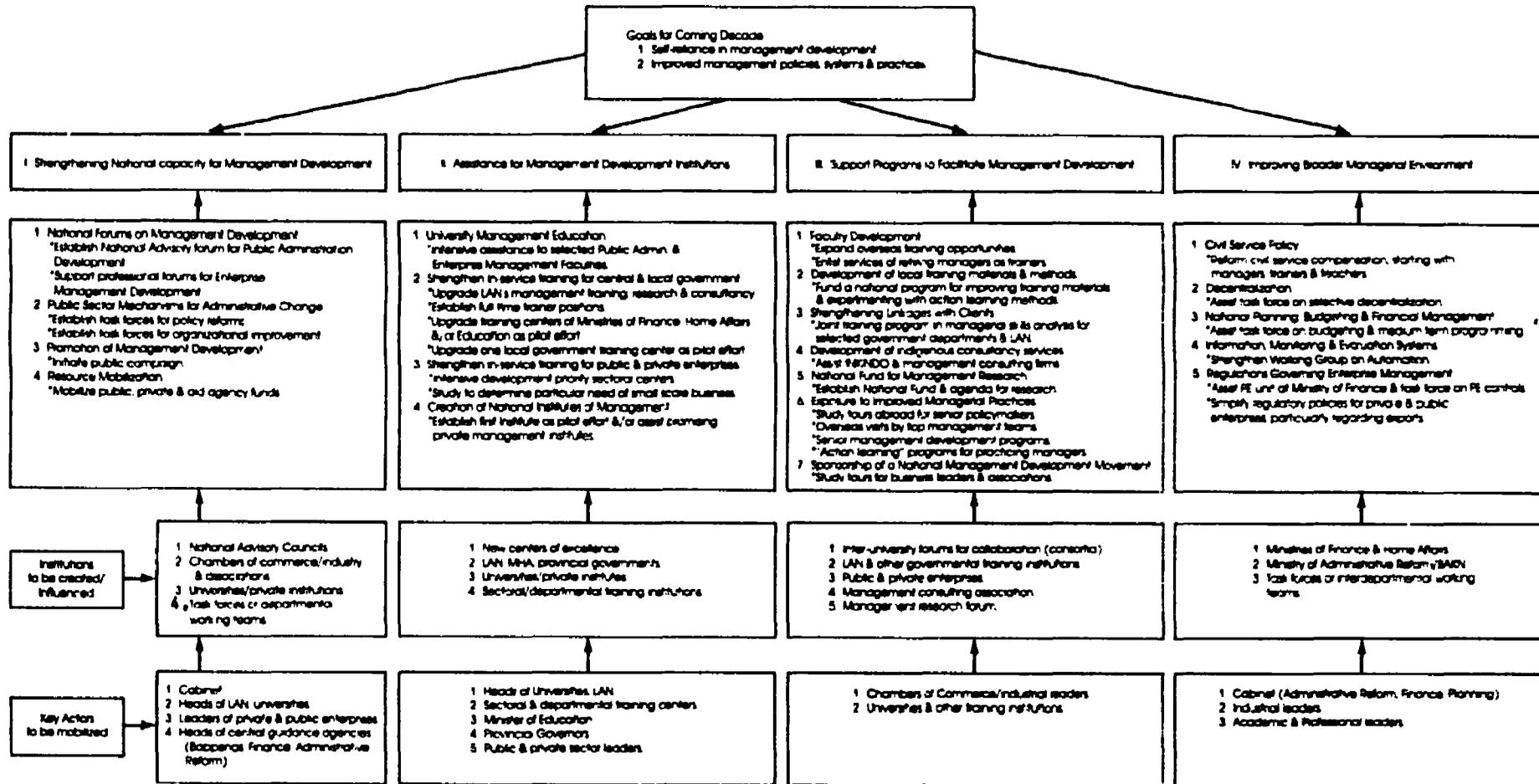
Figure 8.1 highlights the interdependence among various components of this strategy, their phasing, and the key institutions and actors involved.

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

8.10 Government has a preeminent role to play in building the country's managerial capability through policy formulation and support to institutions engaged in management development activities. Business leaders and policymakers play a similar role in influencing private sector management. The following four areas therefore warrant early attention.

Figure 8.1

A STRATEGY FOR MANAGEMENT DEVELOPMENT IN INDONESIA



*Indicates measures suitable for immediate action program

(i) National Forums on Management Development

8.11 To provide a forum for discussing priorities in public administration education and promoting policies and administrative reforms in support of management development a National Advisory Forum for Public (civil service) Administration Development is proposed. Specifically, its functions should include:

- (a) advising government on all policies and plans concerning public sector management education and training to support administrative reforms and development policies;
- (b) providing a forum for assessing the impact of other public policies and incentives on management performance and development;
- (c) promoting research and experimentation in education, training and improved managerial practices, and disseminating such to concerned organizations;
- (d) facilitating and reviewing the implementation of the proposed strategy for management development in the public sector.

8.12 This Forum could consist of up to twenty members drawn from policy makers and senior representatives of the central guidance agencies (MENPAN, BAPPENAS, BAKN, LAN, Finance), major ministries, local governments, management educators, and perhaps, public enterprises. The Forum may be responsible to the Minister of Administrative Reform, the Minister of Planning or to an Inter-Ministerial Committee established to oversee public sector management improvement. Appointment to the Forum might be limited to three years. The Forum should be serviced by a full time technical secretariat. LAN and BAKN would provide staff resources.

8.13 The Forum should be a promotional and advisory, rather than a regulatory, agency. Its effectiveness in this regard will depend as much on its style of leadership, as its knowledge of improved managerial practices. It would need strong political support. To promote broad participation and avoid the creation of a large body, the secretariat may generate ideas primarily through external groups and sponsored studies rather than through its own staff. The Forum and its secretariat would encourage consideration of critical issues, organize national workshops, promote cooperative programs among concerned institutions and encourage senior managers to develop their juniors and organizations. The primary responsibility for planning and implementation of specific organizational development programs would remain with the ministries and enterprises employing managers.

8.14 A separate effort should be made to support appropriate forums for Enterprise Management Development to focus on promoting management development in public and private enterprises. The membership of these forums would consist mainly of business leaders, top managers and commissioners of major public enterprises, and business educators. They would advise the Minister of Planning, Finance, the Economic Coordinating Minister, or the chairman of a small inter ministerial committee. The Ministry of Finance, as the principal

shareholder of public enterprises, has a vested interest in improving management skills and systems in these enterprises. The banking system should have a similar interest in private enterprises. The Chamber of Commerce, KADIN, and major industry and trading associations and the Professional Managers Association, PERMANIN, may plan an important role as independent policy forums for promoting management development.

8.15 These forums could play a significant role in promoting a national management development movement. They could help to foster a national dialogue on the policy environment and its impact on management performance and development and provide useful feedback to government policy makers. They could commission research on effective Indonesian models of management and promising managerial technologies, and then disseminate such information widely. They might also organize or support national conferences, professional journals, and outreach programs. As advisory and promotional bodies, these forums would neither impose topdown coordination of management development activities nor parcel out management training activities. Rather they should stimulate diversification and competition between institutions in management development as a spur to innovation and to ensure full coverage of management development needs.

8.16 Communications between these various enterprise forums and the public management council would promote cross-fertilization of management development experience between public administration and business cultures. Some overlapping membership would acknowledge the influence of public administration practices and policies on the performance of enterprise managers, public and private, infuse the bureaucracy with "management consciousness" and "business-like culture", and enable the private sector to view their concerns with a macro perspective.

(ii) Public Sector Capacity for Administrative Change

8.17 There is an urgent need to build the capacity of the core agencies to design and institute modern managerial systems, appropriate incentives and improved practices both within their own organizations, and government-wide. The institutional framework for developing this capacity is already established in Indonesia; what is needed now is to provide this machinery with the incentives, skilled staff and overall strategy for change. The Ministries of Finance, Administrative Reform (MENPAN), and Home Affairs along with BAPPENAS, the National Civil Service Agency (BAKN), and LAN constitute the core agencies which guide the development of administrative policies (paras. 3.10-3.12 and 3.41-3.43). The Ministry of Finance influences managerial systems in the public enterprises, while the Ministry of Home Affairs has a similar role with respect to local governments.

8.18 Each agency might establish its own agency-wide working team or task force to plan for its institutional development and to improve its capacity to induce institutional reforms at the public institutions under its influence. Such plans might include building a critical mass of staff skilled in systems analysis and design, administrative policy formulation, methods and procedures, organizational development, process consultation, personnel management and management information systems. The relationship between such

staff and top management and their career ladders will be critical to their effectiveness. At the early stage, these task forces may be assisted by qualified outside experts and management development institutions.

8.19 Similar task forces or steering committees may be organized in the technical ministries to improve their own policy formulation, resource allocation, personnel and information management, and methods and procedures. These efforts should be led by senior management and should engage all managers in proposing organizational improvements. The Secretary General of each Ministry might chair the task force, drawing on his own staff units (O&M, personnel, planning, finance, training, and R&D), and on outside assistance from the central guidance agencies, management development institutions, LAN, local consulting firms and/or aid agencies. Each task force should determine the priorities and phasing for its activities. It should provide a nucleus capacity for administrative change within its ministry. If assistance to task forces were to be phased, priority should be given to those ministries where senior management is committed to organizational and managerial improvement. However, the key role of the Ministries of Education, Finance and Home Affairs in administrative development suggest a strong case for intensive and early action.

8.20 It is important to understand the rationale behind the choice of working teams or task forces for managing the process of change at specific institutions. First, the task forces would be under the control of the Ministers or agency heads and thus vested with the authority to formulate and implement their own action plans. The National Advisory Forum for Public Administration Development could play only a facilitating role. Second, the task forces would ensure participation of the line managers and hence the commitment of the affected parties in formulating and implementing their own organizational development programs. Third, they would encourage a shift in the discussion of complex problems of organizational performance from the general to the specific. Similarly, they would help break down major issues of organizational change into manageable tasks. Fourth, they would facilitate the provision of "process consultancy" by the core agencies (LAN, MENPAN, etc.) and/or outside technical assistance (resource groups), while ensuring that the senior line managers remain in charge of the change process. Finally, each task force would provide the basis for developing a permanent institutional capacity within its ministry or agency to respond to its changing environment.

(iii) Promotion of Management Development

8.21 As policies and priorities are formulated, government and enterprises could take a more active role in promoting management education, training, consultancy and research. Concerned ministers, business leaders and the national forums could initiate a public campaign to highlight management issues and increase "management consciousness" in the society at large and thus induce more effective and relevant management development activities. This should create a supportive environment, including social reinforcement and nonformal channels of learning for management development. Positive incentives, such as improved compensation, public recognition for outstanding administrators and management educators, and offering tax write-offs or direct

subsidies for management training expenditures might be considered. The national forums and professional associations might propose other promotional measures.

(iv) Resource Mobilization and Allocation

8.22 The upgrading and expansion of management training facilities will be costly. It is imperative that adequate public resources be allocated for investment and recurrent expenditures. To supplement domestic resources, the assistance of foreign aid agencies might be enlisted; this might be a topic for consideration at a forthcoming Aid Coordination (ICGI) meetings. It is essential that there be adequate planning and coordination of the utilization of these scarce resources to ensure consistency with national priorities. These measures should be complemented by incentives and policies to mobilize private resources.

(b) Assistance for Management Development Institutions

8.23 A viable network of institutions to develop managerial skills and systems is clearly the foundation of a long-term strategy. The following five considerations are particularly relevant:

- (a) Development of appropriate curricula, and teaching materials and methods - without these institution building efforts by themselves cannot generate quality education;
- (b) Choice of institutions to be supported - given the scarcity of resources, initial efforts should focus on leading institutions with a potential demonstration effect;
- (c) Creation of incentives and management structures conducive to institutional development - factors such as faculty motivation, decentralized management, and autonomous operation are all vital inputs to institutional viability;
- (d) Differentiation and specialization of educational and training institutions - some measure of specialization is essential to take account of the particular requirements of the various categories of demand within central and regional governments, large scale public and private enterprises, small scale enterprises, and cooperatives (Chapters 3 to 6). Sectoral specialization is also needed, given the magnitude of the demand and the diversity of the technology and managerial culture of various sectors and industries.
- (e) Creation of new programs or institutions to focus on leadership and management systems development, as distinct from general management education and training - while the majority of management education institutions will continue to be primarily concerned with middle and lower level management skills that are necessary to operate present systems and procedures and to manage more effectively within present structural constraints, there is a clear need for institutions or programs that would develop the leadership qualities of senior

managers and provide forums and research and advisory services on macro-institutional or large system changes. Such institutes should be concerned with developing in-country capacity for macro administrative change (as distinct from micro organizational changes). Top managers of the future should see themselves in leadership roles, and not only as overseers of rules and procedures.

8.24 The following paragraphs recommend measures to strengthen university level education and in-service training offered by business and government, and to support and encourage the development of private institutes for management development.

University Management Education

8.25 Faculties of Enterprise Management and Public Administration should be established at the major public universities (para. 7.20). Correspondingly, one independent consortium for enterprise management education and one for public administration should be established. There is a clear need to separate enterprise management from Economics Faculties (and, where applicable, integrate all other business programs that may exist under other faculties) to professionalize management education, to address its unique requirement for experiential learning, and to reorient curricula and teaching methods. Similarly, public administration programs under various faculties should be integrated under one independent faculty at each major university. These efforts should be supported by university personnel policies (regarding faculty qualification, compensation, career development and performance evaluation) designed to attract the highest possible caliber staff.

8.26 Undergraduate programs in management should place much greater emphasis on practical and relevant issues, in contrast to their present theoretical orientation. Functional competence in areas such as marketing and finance should be stressed.

8.27 Larger universities should be encouraged to institute Masters' level programs in enterprise management and public administration. Participants selected for this program should be mature and competent, preferably with some work experience. Such students are more likely to benefit from an interdisciplinary, real world focus than others with only an abstract notion of managerial issues. These programs should reflect an inter-disciplinary approach, integrating conceptual with experiential learning, through the development of problem solving skills. Courses should combine classroom learning with field work, and tap any relevant prior experience of the participants. The aim of the program should be to turn out action oriented people with an integrated view of management functions.

8.28 It is certainly recognized that such programs cannot meet the needs of all the young professionals who aspire to managerial careers; thus, essential elements of management education should be offered in the graduate curricula of other professional schools including technical, engineering, education, agriculture and medicine. Engineering schools, in particular, should introduce a management dimension into their curricula, as a critical step in increasing industrial efficiency. Moving toward sectoral specializa-

tion, faculties of agricultural and industrial management might be created at IPB and ITB (Bogor's agricultural, and Bandung's technology institutes, respectively). These faculties would take advantage of the two institutes' competent management and their respective reputations as centers of excellence.

8.29 In order to ensure communication between the academic community and business and Government, universities should encourage their faculties to undertake short term consultancies with enterprises and government, and should offer short term training courses for practicing managers. Some of the leading universities might encourage management development activities, including consultancy and research, and combine them with training to provide integrated management development programs tailored to specific sectors or organizations. However, faculty involvement in outside, albeit related, jobs or consultancies needs careful monitoring to ensure that the primary task of education is not neglected and that consultancy assignments contribute to the institution's priorities in teaching, research and professional development.

8.30 Careful planning for, and selective investment in curriculum development can have a significant impact on the success of all of the measures recommended above. Given the premium on financial and human resources, some economies of scale might be exploited by related university departments sharing faculty and teaching materials in certain core subjects, such as economics, accounting, behavioral sciences and quantitative analysis. Experiments in combining courses in business management and public administration might yield fruitful new training designs.

8.31 Finally, university education in certain fields interrelated with the study of management - especially accounting, economics, and behavioral sciences - also needs considerable strengthening, since these skills all influence an organization's management capability.

8.32 Clearly, assistance to university 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 some near term improvement should be selected. Over the course of the strategy's ten year time frame, it would seem feasible to assist about fifty percent of the public universities and about 10% of the private institutes. Immediately, it would seem appropriate and 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). The institutions selected for assistance should reflect a careful assessment of the quality of existing programs and regional priorities. (A study of the requirements for upgrading/reorganizing the existing departments should be undertaken.) A standard pattern of upgrading will, in all likelihood, not be appropriate as one institution's needs for improvement will probably not correspond with another's. Suitable foreign collaboration should be enlisted as necessary.

8.33 For universities not selected for direct assistance, both management consortia and the national forums could play an educative function in disseminating relevant information on successful adaptations in other domestic

universities and new developments from abroad which could assist them in planning their own future training requirements, curriculum development, etc.

In-Service Management Training

8.34 Systematic in-service training for those already employed and planned on-the-job experiences will be essential in building a national cadre of capable managers. In some developed countries, Japan and the USA for example, industries are now spending more on management training than the combined budgets of their nations' universities. A manager in one of these countries can expect to receive some form of training approximately every four years, whereas his counterpart in Indonesia probably receives training no more than once in twenty years on average.^{122/} Indonesian government agencies, both central and regional, and public and private enterprises must now face this important task of upgrading management capabilities through expanded in-service training opportunities.

8.35 Training should be reoriented along the following lines:

- (a) from ad hoc short-term courses based on available offerings at supply institutions to demand-directed training based on long-term management development programs;
- (b) from classroom instruction to field-oriented training;
- (c) from use of artificial examples/cases to action learning and real-world problem-solving;
- (d) from an emphasis on knowledge transfer towards inducing desirable changes in attitude and skills;
- (e) from the study of individual techniques, towards an analysis of policy and environmental contexts where techniques are applied selectively;

^{122/} This is a rough estimate based on the data given Chapters 3 to 7. The stock of managerial and supervisory level personnel in Indonesia in the public and private sectors (including central and local governments, but excluding the unorganized small industry sector) is estimated at 450,000 (Government: 300,000, enterprises: 160,000). A total of 23,000 managers (universities/private institutes: 11,500; LAN and departmental training institutes: 8,000; others 3,500) receive some form of formal management training (in-service) annually through short programs organized by universities, private institutes, LAN and other government training centers, and enterprises. This does not include the orientation courses or purely on-the-job training that many enterprises/government agencies may provide to their managers. The ratio between the two totals is 19.6. The estimate will be much more unfavorable if the stock of managers in the small scale sector is added.

- (f) from the focus on individuals or a single layer of management, towards linking training to overall organizational development that cuts across organizational layers;
- (g) from uniform approaches to experimentation with different training methods; and
- (h) from standardized programs towards modular or custom-made packages prepared with the participation of clients and trainees.

8.36 Government In-Service Management Training. LAN and the departmental training bodies (BANDAN DIKLATs or PUSDIKLATs) are the key central government training agents; the Ministry of Home Affairs' BANDAN DIKLAT, together with a proposed network of regional centers, are the key provincial training agents. Training at all these centers should seek to improve the quality, relevance and effectiveness of in-service training for government administrators/managers. In this context, LAN and the MHA could take the lead in generating qualitative improvements in training, and building a capacity for administrative research, advisory and consultancy services to serve the central and local governments respectively.

8.37 LAN should play a promotional and supportive role to departmental in-service training institutions. Its direct training should be limited to developing senior managers through an improved staff college, and "training of trainers" programs for other institutions. It should encourage innovation and experimentation in curriculum design, pedagogy and training materials. LAN could provide specialist assistance to the departmental training bodies of key ministries in areas such as the management and evaluation of training programs, management information systems, skill needs analysis and case method development. LAN may continue to deliver administrative training programs to the smaller departments or national agencies on a very selective basis. Adoption of the foregoing measures would call for a restructuring of LAN and the creation of career streams for trainers and researchers within LAN; these should get underway as soon as possible. LAN should begin to phase out its enterprise management activities and its degree program in public administration, perhaps devolving these responsibilities to the Ministry of Finance and the universities, respectively. INTAN of Malaysia might provide a useful model of a successful public institution for in-service training, although its mandate is modest relative to LAN's. (Detailed recommendations on the institutional development of LAN are proposed in Annex 3 to Chapter 3.)

8.38 To help mitigate leadership succession problems, which most agencies will face in the near future, LAN should establish a senior executive development program for Echelon I and upper Echelon II staff, perhaps in collaboration with the Defense Staff College and a reputable foreign public management school. This might also facilitate interagency coordination, promote a national view of the civil service, and generate high level commitment for management development programs. Such a program should convey the skills necessary for initiating reforms and large-scale organizational changes. If successful, this program could be institutionalized as a national senior staff college.

8.39 A central government capacity for administrative research and consultancy services is needed. LAN might serve this role as the Government "think tank", and, as such, should develop its policy analysis capability and undertake research useful to the Ministry of Administrative Reform, BAPPENAS, BAKN and other central guidance organizations. LAN should also expand its consultancy services so that its staff can accumulate experience and understanding of actual administrative and managerial problems in ministries and in the field. The research agenda for LAN might include public planning and budgeting, decentralization and development of regional administration, strategic management of development programs and implementation issues. Research priorities should be determined on the basis of their potential contribution to the quality of civil service training, the effectiveness of major development programs, and the mobilization of local managerial resources. Should certain research topics (such as broad administrative reforms that would encounter bureaucratic resistance) be deemed necessary, but conflict with LAN's primary training role, capacity for initiating such reforms may be developed directly within MENPAN, Ministry of Finance, and BAKN (para. 8.17 and 8.18).

8.40 The departmental training centers, of key development ministries should be strengthened and their administrative development programs reoriented towards the primary needs of their ministries and specific development programs (Chapter 3). Upgrading these training bodies implies development of competent trainers, creation of full time positions and career ladders for trainers, improving the quality of training materials and pedagogy, and improving the planning, programming and management of training. Of the existing departmental in-house training centers, those of the Ministries of Finance, Home Affairs and/or Education may be selected for initial intensive development. These ministries play key roles in influencing the efficiency of other central ministries, public enterprises and local governments. Development of the management training programs of selected ministries should be combined with overall organizational development programs and involve top and line managers of these ministries.

8.41 In-service training efforts for local government personnel, should concentrate on strengthening the Ministry of Home Affairs' BADAN DIKLAT as the central institution for planning, programming and evaluating regional training needs (Chapter 4). Specific areas for improvement include manpower planning and training for MHA's central training staff; curriculum and materials development for the regional training centers (para. 8.27); medium term planning and monitoring of regional training programs; training of trainers; advisory and management services to improve local government management systems; research on regional management development; and collaboration with university training programs to ensure that they reflect local governments' needs.

8.42 It is also proposed to establish, in association with leading universities, a small number (6 to 7) of new autonomous regional training centers which would integrate all existing in-service training, including mid-career management development, for regional government staff (Chapter 4). The managing board of each center would represent MHA, major technical ministries and guidance agencies, and the provincial governments to be served by the

center. These regional centers would manage the SELATPUDAs, APDNs, LAN's regional centers, provincial PUSDIKLATs, BAPPEDA courses, and other departmental management training courses in their provinces. Of the existing local government in-service training institutions, the Yogyakarta's SELATPUDA, seems to have the potential to be upgraded to serve this purpose, given adequate and intensive development (possibly in association with Gajah Mada University and the MHA). This endeavor should be seen as a learning experience which would provide useful lessons for developing the other proposed regional training centers.

8.43 In-service Management Training for Public and Private Enterprises.

The indigenization of management in Indonesia will require considerable expansion of in-house training facilities and the creation of management development systems within public enterprises. The pace should be set by large enterprises. The creation of in-house management training facilities may be a feasible target for all major public enterprises to achieve in the next five years. Few of them already possess some management training capability, but with generally poor quality instruction.

8.44 As a first step, public enterprises' training facilities, especially in priority sectors such as construction, banking, communications, trade, energy and industry, should be evaluated in terms of their contribution to overall organizational performance. In addition, sectoral training institutions should be evaluated and strategy formulated for their long term development. Major public enterprises should create human resource development divisions, under a sufficiently senior executive, to integrate and upgrade the functions of training and personnel management. An active dialogue should develop between these divisions and the sectoral training institutions (Chapter 5).

8.45 The agricultural training institute (LPP), serving the estate sector, already offers some promising managerial training courses. The key factors which have contributed to LPP's success include its relative autonomy, dependence on client enterprises for generating its operating budget (by selling relevant services), and full time, well paid trainers. As these may be relevant for other public enterprises' sectoral centers, LPP might be selected for early intensive assistance, on a pilot basis, with possible subsequent replication in other sectors. In addition, LPP might eventually accept participants from private agricultural enterprises, and public enterprises in interrelated fields such as agro-processing, marketing, and distribution/transport of agricultural inputs and outputs. Other priority sectoral centers are those of industry, energy, and communications.

8.46 Many large private enterprises in Indonesia should be capable of setting up management development programs, the essential elements of which should include an organizational development strategy, which has the full support of top management, an in-depth needs analysis leading to a set of integrated programs at all levels, and effective monitoring of the program's overall progress. Private enterprises should be actively encouraged to institute such programs, through public campaigns and financial incentives. At least 50% of large companies should aim to establish in-house management training facilities within the coming 5 years.

8.47 Programs aimed at developing managerial competence in small scale industry, cooperatives, and other less organized sectors warrant special considerations. Government institutions now addressing these areas seem inadequate to deal with, and relate to the "business cultures" of their clients (Chapter 6). A decentralized approach is necessary to address the diverse needs of these enterprises. Government might offer incentives to educational institutions and large enterprises to participate in outreach training programs to serve small business development and place small business management consultants at the state banks. It might also consider sponsoring some autonomous agencies and Non-Governmental Organizations (NGOs) to initiate pilot training schemes adapted to the specific needs of various groups in this sector. Government may also encourage state banks to recruit graduates of small business consultancy courses (such as those offered by LPPM) as an important complement to their staff.

Private and National Institutes for Management Development

8.48 Given the limitations of the university system, the scant resources of most private management institutes, and the need to create models for innovation in the management field, it is proposed that as a long term objective up to three semi-autonomous management institutes be established or developed under joint public/private auspices. These centers should set standards of excellence and introduce innovative concepts which could have an impact on other institutions, and the economy in general. The centers should be located in different regions of the country, preferably in proximity to industrial and growth centers.

8.49 For the short term, however, emphasis should be given to support the emerging new institutes (such as Prasetija Mulya, Foundation for Management Development) or the promising private institute, LPPM. In principle, existing institutions which are positioned to take such a leadership role outlined below (para. 8.51) should be supported over the creation of new ones. Public and private enterprises should support these institutes. The Government, donor countries, and multinationals could also assist in developing them into leading centers with a critical mass of full-time faculty and long-term commitment to excellence in education, consultancy and research.

8.50 The national institutes may emerge out of further development of these private institutes or out of substantially reformed and upgraded faculties of management of few leading public universities. For phasing purposes, these national institutes should focus first on issues of management education, training, research and consultancy relevant to enterprises. Subsequently, as they gain experience and in-depth knowledge of public institutions, greater attention could be given to public administration. This suggested phasing reflects the fact that there is generally greater knowledge and experience with "enterprise management" and less with "public management", particularly the transfer of "public management" education models across countries. It also reflects a realistic phasing of institutional development, taking into account the desire for excellence and diversification, while responding to public sector needs and Government role in economic and social development. Similarly, these institutes would initially focus on the needs of medium and large enterprises and only subsequently on small business

development and outreach programs, as a critical mass of skilled managers and educators become available.

8.51 The envisioned role of such national institutes of management is not only to provide management education and training, but also to spearhead the process of improving the managerial environment. They should attempt to influence managerial systems and practices directly through action research and consultancy services. They should undertake in-depth research on problems of Indonesian management. They should encourage future managers to see themselves less as regulators of existing institutions and more as change agents, institution builders and systems developers. They might sponsor national workshops for senior policymakers and managers to promote environmental changes.

8.52 These institutes should be prepared to lead other educational institutions in research and experimentation with new training materials, curriculum designs and teaching methodologies, such as case study and action training.

8.53 The institutes should offer graduate level programs to practicing managers, perhaps eventually including a doctoral program for management educators and researchers (para. 8.57). Some may also specialize in a sectoral (agribusiness, industrial) or functional (financial management and accounting) dimensions of management. A critical mass of faculty will be necessary to support this and other activities of the institutes. Each institute should be managed with a high degree of autonomy and should seek financial support from multiple sources, including government, public and private enterprises, and its own earnings.

8.54 The experience of the Indian Institute of Management (summarized in Annex 3 to Chapter 7) may be relevant as a vision of what role such national institutes might fulfill and of what measures might be necessary to enable some of the promising existing institutions to evolve towards such a role.

(c) Support Programs to Facilitate Management Development

8.55 Improving Indonesia's management capability will require a number of important supporting programs to facilitate the process and broaden its constituency. These programs would also service a national network of management institutions, in addition to those selected for intensive development. Government may assist user organizations in implementing many of these measures.

Faculty Development

8.56 Foreign institutions will be the primary source of training university management faculty and in-service training instructors for some time to come. Thus, degree programs and shorter training courses at overseas

institutions should be provided on a fairly wide scale initially.^{123/} The foreign institutions should be carefully selected and there should be a built-in provision for trainees' to evaluate these centers and other mechanisms, to ensure that programs and research are relevant to Indonesia's needs. Group training of work teams would help to sustain and institutionalize the new learning and teaching norms.

8.57 Over the longer term, indigenous management faculty training should be strengthened. Some National Institutes of Management, or selected universities might offer Ph.D. programs. However, this should be pursued only after a Masters program has been solidly established, and the capability to pursue and supervise quality research exists.

8.58 Given the present understaffing of many educational in-service training institutions, recruitment efforts should be expanded. Meanwhile, to alleviate the existing constraint, visiting foreign professors and trainers might assist in faculty and student instruction. Suitable public administrators and public enterprise managers, facing retirement in the coming five years could serve as interim trainers. In addition, incentives might be developed to attract successful line managers to serve as full or part time trainers in the course of their career development.

8.59 In the long run, faculty development in state universities and central and local government training institutions will be crucially dependent on adequate compensation policies, status and career prospects, and other incentives (see paras. 3.32 and 7.22). As a guideline, a ratio of two full time to one part time trainer seems appropriate. A study should be commissioned as soon as possible regarding compensation and career development of management faculty in universities and trainers in departmental and sectoral training centers.

Development of Training Materials and Methods

8.60 Development of local training materials will require a well trained faculty and appropriate incentives. Teachers and trainers sent overseas should be encouraged to undertake field work, develop cases on Indonesian problems and write Indonesian teaching materials. The new institutes of management should become increasingly involved in such efforts through publications, organizing workshops on case development and process-oriented teaching, and experimenting with new training methods. Different institutions might specialize in different teaching materials and methods, consistent with their skills, location and resources. A national clearing house for local and foreign training materials could be set up as a resource center. Special

^{123/} Lack of foreign, especially English, language skills may constitute a serious constraint to participation in overseas training. Therefore, there is an urgent need to improve English and other language training facilities and general English language competence to implement this component and other support programs requiring overseas training and study tours.

programs to develop Indonesian materials for target groups such as small businesses may be sponsored by Government at selected institutions, such as LPPM. To the extent that secondary (and post-secondary) technical and vocational education may continue to contribute to Indonesia's managerial and entrepreneurial resources, basic managerial and entrepreneurial skills may also be introduced through curricula and experimentation with new teaching methods and materials.

8.61 Regional training centers might experiment with new training models and methods particularly relevant to their local circumstances. This implies a relaxation of detailed prescription by the apex institutions (MHA and LAN) of curriculum content. Instead, these institutions can play a useful role in promoting innovation, monitoring performance, providing specialist support, and disseminating replicable ideas among institutions.

8.62 Other possibilities for innovative training should be explored. This might include senior level management development programs and "action learning" programs for practicing managers, whereby they collectively attempt to solve their common operational problems. ILO has implemented "action learning" programs for public enterprises in some developing countries; UK and several European countries have also utilized this approach for practicing managers. INTAN of Malaysia has experimented with action training in public administration. As Indonesian institutions gain experience with practical training, successful innovations may be disseminated through the management movement and various associations and forums (see also paras. 8.70-8.71).

Strengthening Linkages with Clients

8.63 Institutions engaged in management training must maintain an active dialogue with client organizations to ensure the relevance of their curricula. A number of steps are proposed here to promote this dialogue. First, all autonomous institutions should have governing boards in which client groups are well represented. The management and public administration consortia and/or university faculties could have advisory councils, consisting of government officials, businessmen and professional managers as members. Government training institutions, particularly LAN, might liaise with an inter-departmental training committee in which user ministries/agencies are represented. The regional training centers should be governed by a committee representing provincial governments and regional universities. Second, management development institutions should be made dependent for part of their income on selling their training, consulting and research services. Third, training needs should be assessed in consultation with client organizations. A training program in "managerial skill gap analysis" should be initiated for selected government departments and national institutions in association with LAN. This should yield a more reliable assessment of organizational training needs and provide a basis for planning new senior management development programs. Fourth, field work by faculty, relevant consultancy assignments, and the use of visiting faculty from government and industry should be promoted to forge client linkages. Last, training programs could be reviewed by the line managers or employers or participants as Malaysia has done in its central government training institution, INTAN.

Development of Indigenous Consultancy Services

8.64 As management development activities grow, the need for consultants' services will also increase. Since this field is at present dominated by foreigners, special efforts will be necessary to develop indigenous firms. Overseas training, in concert with reputable international consulting firms, and organizations such as ILO and UNIDO, may be used to train a select group of Indonesian consultants.

8.65 The faculties of the proposed National Institutes of Management should help establish professional standards in the field of management consultancy. INKINDO, the association of consulting companies, may be further strengthened to serve its members and promote quality and professionalism in this field. LPPM has initiated a program for training management consultants for small enterprises which should be encouraged. Appropriate policy measures should be taken to ensure that state banks and extension programs targeted at small business development could employ the graduates of such training programs. Some university management faculties may selectively develop their own consultancy centers. Existing Indonesian technical and accountancy consulting firms may be encouraged to move into management services also. Government should establish quality control procedures in its selection of consultants and device promotional policies to encourage local consultants to develop a broad range of quality management services. The Ministry of Finance and LAN may develop consultancy capabilities in financial management, and organizational and systems development, respectively, to serve government agencies.

National Fund for Management Research

8.66 The unique historical and cultural factors that have conditioned present Indonesian management practices argue for a priority research agenda to examine the strengths and weaknesses of present practices. This agenda should examine the issue of transferability of significant management techniques to the Indonesian context. In addition it should review the managerial styles of some successful and respected public and private managers or institutions, to identify the ingredients of effective "home grown" management practices. Research efforts may also reflect sectoral issues (e.g., in industry or education) or other topics of national priority, such as how to improve business and public administration education, and how to implement continuing education for managers. The national research agenda may be formed and reviewed through a national forum such as a professional body, or a national research foundation. The national fund may be financed from public and private sources and aid agencies.

8.67 A national research forum may also encourage the utilization of management research findings, whether funded through this forum or through other regular channels. Dissemination efforts may include sponsoring a journal (that translates research outputs into managerial language), and encouraging management education institutions to publicize research findings using the "action research" approach. Seminars and conferences may be organized to bring academics and managers together to discuss research findings and issues. The fund might finance management research in user organiza-

tions directly, when these organizations encounter issues of wider national relevance.^{124/}

8.68 In addition, there is a need to improve the organizational climate for research and the present mechanisms for funding management research through the regular channels of the national development budget. The existing budgetary process militates against multi-year funding required by fundamental research, and provides no mechanism for quality control. Moreover, there is little staff development of researchers. Private and public enterprises and local governments have little influence on management research activities, partly because they do not usually fund such research directly. Hence, the national forum should explore various approaches to improve the research environment within the educational institutions, promote financial contributions from potential users of research, fund overseas education to form a cadre of management researchers, and provide public recognition for excellent research.

Exposure to Improved Managerial Practices

8.69 Broadening the exposure of top officials in government and industry to better managerial practices through study tours abroad should be a basic ingredient in building commitment to an improved managerial environment.^{125/} Study tours should be organized for senior policy makers to visit other countries which have in recent years restructured their training policies and institutions, or reformed their civil service policies, particularly in relation to compensation and career development. The experiences of Malaysia, Singapore, and the Philippines, and probably Japan offer useful lessons. Likewise, teams of business leaders and top managers from public enterprises might visit developing and developed countries to observe good examples of managerial systems and practices and examine training practices and management development systems; these tours could be arranged jointly by Government and the Chamber of Commerce and Industry. In-company training, use of external training institutions, new methods of training, use of consultancy services, and integration of training and other personnel policies and management systems improvements are subjects they could explore. Companies and organizations to be visited should be chosen carefully. Countries which have considerable experience in this field are India, Japan, the Philippines, France, the UK and the USA. Reports on these visits should be prepared upon return

^{124/} For detailed background on the role and options for management research see Roger Bennett, Management Research, ILO, 1983.

^{125/} In Japan, many top administrators and promising managers are sent on study tours abroad, searching for examples that could be usefully emulated at home, and for guiding the acquisition of managerial knowledge of special interest for their organizations. In Indonesia, where culture and history have emphasized the role of authority and paternalism, top managers should lead changes in managerial practices, and support the development of their juniors. Moreover, Indonesian managers are generally keen to learn from the experiences of other countries and are able to synthesize from the best models and practices.

and widely disseminated through seminars and workshops; the mass media may be used to report on the findings of these study teams.

Sponsorship of a National Management Development Movement

8.70 A sufficient number of managers and trainers now exist in Indonesian enterprises and government to organize local management associations, which in turn could be federated into one or several national organizations. These associations could fulfill several important functions. They would provide a local forum for raising pertinent management policy issues and problems. A national network would be readily available for distributing useful information, studies and reports to local chapters. The associations could organize, on a local or national level, short training seminars and workshops where senior managers could share their knowledge and experience with younger managers. The associations could seek assistance with training materials and technical assistance from universities. The movement could be enhanced by government incentives and national awards for excellence in managerial performance and productivity. But it should be seen as a practitioner's self-help movement, and not as an institution created and sustained only by government.

8.71 The movement may use various cultural traditions, symbols, channels of communication and incentives to promote self-help activities and grass roots involvement in management development. It may sponsor a national productivity program, jointly with the Ministry of Labor's National Productivity Center, focussing on in-company training of supervisory-level staff. The movement may build upon the Javanese tradition of mutual help (Gotong Royong) and organize local chapters to introduce simple management tools. Concepts which utilize a broad-based involvement in management and organizational development should be employed; examples may include Quality Circles (QC), Total Quality Control (TQC); and Management by Objectives (MBO).^{126/} A philosophy of management development may be promoted whereby "every manager should be a trainer." A national association of professional managers may give "non-graduate" managers a graduate status by qualifying for membership based on experience, demonstrated performance, and post-experience training (including correspondence courses). Many other measures would be developed by the associations that could promote this movement. Annex 1 of this Chapter

^{126/} A Quality Circle (QC) is a small group of employees doing similar or related work who meet regularly to identify, analyze and solve product-quality and production problems and to improve operating practices. It is usually led by a supervisor and organized as a working unit. Total Quality Control (TQC) expands QC concept to raise the level of quality and productivity of every activity of the organization. TQC uses QCs, involves all levels of management and may involve the suppliers to the company and exchange of experience on QC activities nationwide. It is a group process and involves team problem solving, training, and continuous examination of ways to improve the organization. For details see Joel E. Ross and William C. Ross, Japanese Quality Circles and Productivity, Reston Publishing Company, Prentice Hall Co., USA 1982.

provides further details on the potential role of such a movement in fostering a climate for broad-based managerial improvements. Annex 2 to this Chapter gives a synopsis of the Japanese experience in promoting a national management productivity movement and transplanting modern management practices.

(d) Policies to Improve the Managerial Environment

8.72 Thus far, the proposed strategy for management development has discussed measures which would either impact directly on management education, consultancy and research, or facilitate participation in and build commitment for managerial improvements. The recommendations in this section focus on the broader issues of development administration. Priority areas for improvement are: civil service policies; decentralization; planning and budgeting; information and evaluation systems; and the regulatory policies for enterprises.

8.73 International experience suggests that broad administrative and environmental reforms are feasible only with the actual involvement and full commitment of government and business leaders. Experience also suggests that fundamental reforms should be conceived within a comprehensive and long-term perspective, but implemented through an incremental, experimental and learning process that adapts to the unique historical, cultural, and political settings of the country.

8.74 The following recommendations for improving key public policies and systems should be seen in this light. They are presented here only in terms of broad directions for change. Detailed design of these programs and plans for their implementation should reflect consensus on objectives, priorities and directions among the top leadership. Interdepartmental work teams or task forces could then be organized to deal with priority areas and foreign technical assistance or resource groups be tapped if and when this is deemed appropriate.

Civil Service Policies

8.75 Civil service policy improvements are necessary to professionalize government service in general and management in particular. These will call for effective performance evaluation and that rationalization of civil service compensation policies to reward good performance. Promotion to managerial positions should be brought under guidelines governing all agencies which should provide for promotions across agencies above a specified level. Civil service policies for teachers and trainers should be reformed as a high priority. Selective salary increases tied to performance and rationalization of compensation to control "multiple-job holding" might be undertaken immediately. Annex 3 to this chapter suggests the key issues to be addressed in a study to reform compensation policies in the public sector.

8.76 Personnel management in local governments could be improved by granting greater discretion and professional support to heads of regions in appointment placement and grading of staff, and long term manpower planning. Each province should be encouraged to draw up a long term recruitment and staff development plan which could be coordinated with the local Five-Year

Development Plan; central control over this exercise may be limited to broad policy guidelines.

8.77 An internship/secondment program might be established on an experimental basis among the central guidance agencies. This should enhance managerial skills, promote interagency communication, and encourage a unified view of civil service management. One critical component of this internship program may involve staff exchange between BAPPENAS and BAPPEDAs.

8.78 The above changes suggest the need to strengthen the civil service management system and the possible establishment of a commission on civil service reform which could translate broadly stated objectives into culturally relevant policies (see paras. 2.03, 2.04). The national civil service office (BAKN) needs to strengthen its capacity to formulate and evaluate policies, to experiment with reforms, and to monitor implementation. The personnel offices of the ministries and local governments need to improve their manpower forecasting, devise staff development plans and aid line managers in the development and motivation of their staff. As a first step, a review of organization and staffing of personnel offices should be undertaken and an action plan should be drawn for their development.

Decentralization

8.79 The analysis of managerial practices in Chapter 2 argues a strongly for further decentralization of government authority regarding resource-allocation and program management. This could have a number of beneficial implications:

- (a) increase the ability of higher level (central) managers to deal with the broader and longer term issues;
- (b) mobilize and develop more middle and lower level managers and prepare them for more responsibility later in their careers;
- (c) make national development programs more relevant to local priorities, constraints and resources, while strengthening local coordination;
- (d) reduce implementation delays and promote responsiveness by bringing detailed planning and implementation decisions under the authority of those most informed on the details; and
- (e) ultimately contribute to broader participation in development activities by developing self-reliance, local initiative and accountability.

8.80 A government task force might be organized to recommend specific functions suitable for decentralization;^{127/} these might fall within the following broad areas:

- (a) further "deconcentration" or transfer of specific responsibilities from the central government to the field units of the central ministries (Kanwils) in projects/programs now controlled by central authorities: a phased program should be formulated by each ministry on the exact functions that would be "deconcentrated", along with any measures required to strengthen the the field units, including possible redeployment of central staff development of support systems; and rationalization of central controls; ^{128/}
- (b) further "devolution" of responsibilities to the provincial and district governments: the Ministry of Home Affairs, together with Finance and BAPPENAS might draw up phased plan for transferring specific functions regarding resource mobilization and allocation, management and implementation public expenditure to subordinate levels of government. Some complementary measures may be necessary for implementing such a program; these should be specified. They might include a phased increase in the level of central grants to local governments, along with expanded local authority to raise revenues. Such measures may need to be accompanied by effective central monitoring, support and guidance. Complementary measures should aim at systematic development of the BAPPEDAS and the local government services (DINASes). In this context, the relationship between the KANWILs and DINASes should be clarified, to improve coordination within each sector while promoting decentralization;
- (c) introduction of new decentralized "functional" programs in priority areas: these programs should draw on the lessons of INPRES and PDP, particularly in developing local management systems and planning processes. Some consolidation of the more mature INPRES programs may also be necessary to rationalize and integrate funding sources for key local government functions. These programs should be continuously evaluated; a national center for implementation research capability is now under development which may suggest new avenues for administrative decentralization.^{129/}

^{127/} The present steering committee on Central-Local Government financial relations or the Institutional Development Task Group on Implementation Problems, appropriately modified and strengthened may serve as the basis for this task force.

^{128/} The experience of the Ministry of Public Works in progressive deconcentration of its program functions in highways, irrigation and urban development is worth reviewing.

^{129/} A new national center for research on implementation is under development by the Ministry of Finance and HIID.

- (d) many district governments of large and medium urban centers are presently capable of assuming increased responsibilities. Indeed, many factors suggest the imperative of more rapid decentralization in the management of urban development programs:^{130/} fragmented funding of urban services among various central programs and ministries requiring fairly complex coordination; interdependence among various urban systems and investments; the administrative maturity of urban governments (Kotamadyas); and the relatively higher potential for local taxation (property taxes, cost recovery of services).
- (e) systematic review of the financial and personnel management and policies of local governments and their relationships to central government systems: Policies governing central-local government financial relations are under review; their improvement should have a significant impact on the capacity of local governments to respond to local priorities and improve coordination, efficiency and accountability in managing local services and development activities.^{131/} Similarly, personnel policies for local governments should be reviewed with a view towards increasing local discretion over personnel management and manpower budgeting, within a broad central policy framework and annual ceiling. Annual manpower budgeting may be linked to the regional development plans. Increased staff mobility between central and local governments would be an important step in unifying the civil service, broadening the horizons of local administrators, and providing central managers with a field-perspective.
- (e) delegating more responsibility to project managers: the selection, training and development of project managers by central and local governments should be improved in line with progressive increases in these managers' responsibilities. Responsibility for procurement, reporting, supervision, and the annual operational guidelines of the director general should be reviewed in order to promote initiative, performance and accountability at the project level;
- (f) To the extent possible local community groups and other private organizations should be involved in implementing development programs: this would involve building capacity within local communities to influence the delivery of various government services. Training of local leaders and support to user associations (such as water-user associations), are among the

^{130/} See INDONESIA Country Economic Memorandum, 1984, Part II, and Indonesia Urban Services Report, 1984, World Bank.

^{131/} The recent series of studies on "Central-Local Financial Relations" by K.J. Davey and his colleagues of the University of Birmingham provide a detailed basis for a rationalization program.

possible positive measures. More generally, a policy of debureaucratization may promote the role of NGOs in facilitating development programs and build upon the strength of traditional local institutions.

8.81 Some broad guidelines could help to ensure the effectiveness of decentralization:^{132/}

- (a) the appropriate speed of decentralization is ultimately conditioned by perceptions and attitudes of political leaders and their view of whether certain aspects or types of decentralization promote or threaten national unity. As Indonesia has already undergone a successful process of nation building, and a substantial development of its economy and mass communication, it is favorably disposed towards further decentralization. Present systems and attitudes that constrain effective decentralization may be reviewed to ensure that they become responsive to increasing complexity, urbanization and industrialization;
- (b) As an incremental process of capacity building, decentralization succeeds to the extent it is carefully planned and implemented within an appropriate time horizon. This process has to be selective and experimental and should have a built-in mechanism for learning from successes and failures. Improved information systems at the local government and communication with the central agencies are important elements of this process. A selective approach to devolution of more managerial functions to the stronger provinces may help mobilize local managerial resources and allow the central authorities to focus on assisting the weaker and less developed regions or agencies.
- (c) devolution should be accompanied with increased capacity of the central government to monitor overall progress and to provide central support and guidance to local administrators. It is important that central guidance on broad policy and resource allocation decisions be maintained. Central monitoring and evaluation may be also reoriented and strengthened to improve accountability and reward outstanding performance.

Planning, Budgeting and Financial Management

8.82 Public sector investment planning and budgeting could be improved by moving towards adaptive planning, integrated funding, and a longer term budgeting framework. In a rapidly changing situation and uncertain international environment, strict adherence to blueprint plans may not be a virtue. Further simplification and decentralization of detailed budgetary

^{132/} For other country experiences see Dennis A. Rondinelli, et al., Decentralization in Developing Countries, World Bank Staff Working Paper No. 581.

decisions would help focus top management's attention on strategic planning and on coordinating, monitoring and evaluating development program implementation. They would also give field managers and line agencies adequate flexibility to adapt to implementation conditions. An inter-agency task force might explore specific systems development along the following broad directions:

- (a) strengthening long term planning (through the introduction of uniform planning and appraisal system for large multi-year projects and medium term sectoral programming);
- (b) increasing the focus on policy planning and clarification of priorities, as distinct from detailed planning and operational management through selectively, policy support systems, delegation, etc.;
- (c) strengthening the analysis of recurrent expenditure and its coordination with investment over the medium-term with a view to improve productivity of expenditure regardless of whether it is classified as capital or recurrent;
- (d) selective tracking and evaluation of key programs and development of computerized project file and program monitoring systems;
- (e) gradually delegating greater authority for budgeting and financial management to the departments and regional governments, starting with the more advanced;
- (f) consolidating central funds for local functions into a single channel to permit more coherent planning and budgeting;
- (g) improved the external auditing of local government finances and replacing detailed procedures and multiple, but fragmented, pre-expenditure controls with more streamlined measures for post-expenditure accountability; and
- (h) improving government accounting systems.^{133/}

Management Information, Monitoring and Evaluation Systems

8.83 The government's program to computerize data processing and strengthen monitoring, evaluation and information systems in the public sector is commendable and should be implemented expeditiously. However, there is a need to improve coordination, and avoid duplication of reporting and

^{133/} The recommendations of the recently completed accountancy study, financed under the first Polytechnic project, provided an important step towards implementing a program for improving accounting systems, standards and skills.

excessive centralization. To carry out this task, the National Group on Automation (BAKOTAN) should be reactivated and strengthened.

8.84 Modern management information technology offers a great potential in facilitating decentralization, communication and accountability for a large and diverse country as Indonesia. Information technology can increase access to data for heavily-burdened senior managers and the relatively isolated project officers in the field. When combined with telecommunication technology, largely in place in Indonesia, it could improve the communication capacity between central and local administrators and facilitate further devolution of development activities. The experience of the Ministry of Public Works and its on-going program for modernizing its information and monitoring systems may provide a good basis for initiating similar programs in other key ministries. Priority agencies for such modernization may include BAPPENAS, Bank Indonesia, and the Ministries of Finance, Education, Home Affairs, Agriculture and Labor. They may form ministerial task forces to assess the opportunities for the use of management information technology and the training needs to manage and operate these systems. The National Group on Automation should facilitate collaboration among these efforts and formulate a policy framework for the acquisition and utilization of these systems.

8.85 Improved management information, monitoring and evaluation systems could contribute toward:

- (a) improving; between consultation, communication, and coordination between BAPPENAS and other central guidance organizations;
- (b) deepening the participation by implementing agencies in national and regional planning and budgeting;
- (c) improving policy analysis by monitoring the impact of specific policies and programs on various performance indicators;
- (d) providing timely information on overall financial resources, including early warning of major imbalances, facilitating revisions in plans and budgets and helping to formulate borrowing strategies;
- (e) decentralizing detailed planning, budgeting and financial management to local governments and institutions, while improving accountability and performance evaluation; and
- (f) monitoring implementation of key projects and programs and thus optimizing on available resources and providing timely feedback to program and project managers.

- (g) identifying systematic constraints to program implementation, particularly in areas of procurement, land acquisition, budgeting procedures, and absorptive capacity.^{134/}

Policies Regulating Enterprise Management

8.86 Given stringent resource position its Indonesia can no longer afford to provide subsidized financing to its public enterprises. Recent measures aimed at relaxing financial sector controls and the Government's intention that public enterprises should borrow at market rates (about 18% p.a. compared to 13% earlier), are expected to further strain the financial performance of public enterprises. Based on present projections, public enterprise own savings would only finance about 20% of planned public enterprise investments.^{135/} A significant part of the adjustment process towards more diversified and competitive production structure and the capacity to finance ambitious investment programs from internally generated funds depend on the extent to which these enterprises can become more efficient and innovative.

8.87 There is a strong case for encouraging greater competition for both public and private enterprises. Such an environment can foster greater efficiency and entrepreneurship, and stimulate genuine demand for effective management training. Reforms may be initiated in areas where problems are most serious, such as the regulatory and administrative constraints to non-oil exports. Measures contributing (directly or indirectly) to restricted entry into production, including various licensing and registration requirements, might be examined with a view towards abolishing all but those with demonstrated positive affect on other national priorities. Various improvements in the regulatory framework are now under consideration; these should constitute an integral part of the Government's efforts to harness the financial and entrepreneurial resources of the private sector and to economize on the managerial resources of its public enterprises and regulating agencies.

8.88 The Government could play a key role in supporting private and public enterprise management development. Deregulation does not necessarily mean less Government direction or support but rather less distortion of market signals (prices) and more reliance on promotion, partnership and the development of social overhead capital.^{136/} In this National planning should promote a genuine deliberation between the public and private sectors and develop a forum in which policy needs are identified and examined from several

^{134/} Bappenas' experience with national project monitoring system needs to be reviewed to identify staffing, organizational and other constraints to the effective utilization of this capability and to draw a plan for its revitalization.

^{135/} See Country Economic Memorandum, 1984.

^{136/} For excellent examples, see Miyoei Shinohara, et al., The Japanese and Korean Experiences in Managing Development, World Bank Staff Working Papers No. 574, 1983.

viewpoints. The national development plans (the Five-Year plans and annual budgets) should emphasize consultations with the private sector and focus on key policy issues. It would involve the private sector in the consensus formation process and this enable private sector leaders to see their role in a broad perspective and place industry-specific issues within a macro framework. This would also help national planners to sharpen their vision of the role of private enterprises in national development.

8.89 The recent reforms (June 1984) in the financial sector highlight the fundamental problems and opportunities of managing in a more liberal financial environment. The role of the state banks (both commercial and development) will need to be significantly different from the past when they served primarily as a conduit for channelling surplus Government funds into the economy; they will have to play an increasingly important role in mobilizing domestic resources, in promoting efficient allocation of scarce funds to productive investments, and in improving access of the rural areas and small businesses to banking services. In this environment, management attitudes, skills and support systems will be critical in achieving the intended benefits of policy reforms. The administrative costs associated with the present organizational structures, degree of centralization of loan approval, excessive paperwork, administrative procedures, loan appraisal and supervision, and unskilled staffing should be examined. A program may then be formulated to reduce the administrative and intermediation costs of state banks.

8.90 An inter-ministerial task force may be established under the leadership of the Ministry of Finance or the Coordinating Minister of Economy to formulate a program of structural reforms and organizational development for the public enterprises; the state banks may be covered under a separate task force under Bank Indonesia's leadership. The objectives of such a program should be to strengthen the principal government regulating agencies to improve their policy frameworks and to help public enterprise managers to improve corporate and financial planning and operational efficiency. Specifically, the main elements of such a program might include:

- (a) further upgrading to enable the public enterprise unit at the Ministry of Finance to design, introduce, and support various improvement programs in planning and financial management of public enterprises. In particular, more experienced and competent public enterprise managers should be recruited or rotated through this unit;
- (b) introduce, on a pilot basis, various mechanisms to improve government communication with public enterprises. One promising mechanism might be to conduct joint Performance Improvement Program (POP) workshops to be followed by "process consultation" to deal with those factors identified as constraining efficient performance. Another is to clarify the objectives and performance criteria by which public enterprises are judged; this might include the development of performance indicators, and "contract plans," and the improvement of financial data reporting at the Ministry of Finance, the technical ministry and the enterprise;

- (c) to improve investment planning and financial management by the large public enterprises in the context of overall corporate planning. This would ensure that projects, particularly those requiring commercial bank financing, are economically and financially viable at market rates of interest;
- (d) examine the possibility of establishing a public enterprise (Perseso) to provide management advisory services to public enterprises, staffed by selected senior managers on secondment as part of an accelerated management development program;
- (e) review the financial and technical supervision by the Ministry of Finance and the supervisory (technical) ministry of enterprises; review the role of the board of commissioners and their relationship to the executive directors. The translation by these agencies of government policies into practice needs further clarification;
- (f) review personnel policies of public enterprise managers and commissioners concerning selection, transfer, and compensation, with a view towards rewarding excellence in management.

C. Managing the Implementation Process

8.91 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 consensus 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 the 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 and for overseas training" could provide the necessary mechanism, provided it is adequately staffed and strengthened and it is used primarily in 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.

D. An Action Plan

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 8.1).

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' training center to serve the needs of this and future regional centers (paras. 8.41-8.42).

Table 8.1: 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., Permarrin).
<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 four 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 ministries and central guidance agencies.(b) Initiate a senior executive development program.(c) Fund overseas training for public administration 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.

(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 enter-

prises, 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.

CHAPTER IX. TECHNICAL ASSISTANCE FOR MANAGEMENT DEVELOPMENT

A. A Review of Experience

9.01 Indonesia, in recent years, has implemented a significant number of technical assistance (TA) activities in the context of its development projects, assisted by a variety of foreign donors. Nearly 20% of World Bank lending to Indonesia and more than half of Indonesia's remaining foreign aid has been devoted to TA, including training. The recent pattern of TA has been marked by a shift away from TA in engineering design and supervision, toward a greater emphasis on institutional development, training, policy analysis, and management support systems. While some very encouraging results have emerged from the efforts (e.g., government departments have been able to execute progressively more complex projects and many local consulting firms have been strengthened considerably), the rapid growth in the number and complexity of sectoral institutions, particularly in education, indicates a continued TA need for management support systems. While some very encouraging results have emerged from these efforts (e.g., government departments have been able to execute progressively more complex projects and many local consulting firms have been strengthened considerably), the rapid growth in the number and complexity of sectoral institutions, particularly in education, indicates a continued TA need for management and institutional development. Moreover, as aid agencies move from project to program financing, they will increasingly focus on the management capacity of overall sectors, programs and institutions. Moreover, there appears to be considerable scope for increasing the effectiveness of future TA, and given the rising costs of foreign consultants and the growing scarcity of foreign aid resources, there is a pressing need to do so. A review of recent experience suggests a number of factors which in the past have constrained the full maximization of TA benefits in Indonesia.

9.02 A broad issue which relates to a basic theme of this report is the lack of a sufficiently senior government forum for discussing policy and systemic constraints to institutional development. Closely related is the lack of a national mechanism for learning from previous institutional development activities and for planning and managing technical assistance for these activities. This study has drawn upon the insights of many trainers and technical assistance consultants who have seen the impact of their inputs diminished substantially at the micro level due to environmental constraints. Often, no single institution is in a position to address these broader policy constraints. The institutional choice between trying to adapt to environmental constraints or attacking these constraints directly is seldom addressed. Instead, more institutional development efforts tend either to underestimate or to ignore environmental constraints.

9.03 Among the most important of these environmental factors is the excessive concern, both by aid donors and recipient agencies, with immediate results, and their consequent failure to take a sufficiently long term perspective with TA. As a component of larger projects, TA is sometimes neglected in favor of more immediate and tangible results in implementing the

physical components. Even within the TA itself, the longer gestating aspects of institution building and training are frequently consigned to a subordinate position, as primary emphasis is given to designing and implementing the physical facilities. The resulting projects are often prone to be overly complex, and may even be beyond the preparation or implementing capability of the recipient agencies. Moreover, the emphasis on immediate results often leads to by-passing the weaknesses of implementing agencies by creating special project management units or new institutions, or to rely mainly on foreign consultants. Institutional development measures tend to be poorly prepared, and focussed primarily on ensuring adequate resources for implementing the foreign-aided project, sometimes at the expense of the overall management of the institution or the sector. These narrow interventions tend to create isolated and temporary improvements. Under such circumstances, TA activities have a strong tendency to become self-perpetuating and to work against the basic objectives of self-reliance and sustainability.

9.04 Institutional development projects sometimes lack the full support of the management of the recipient organization, which may be manifested in delays in appointing staff, reluctance to take actions already agreed on, inadequate support for technical assistance consultants, or appointing less able or disinterested counterparts. However, the underlying reasons may be traced to the inadequate involvement of the beneficiary institution at an early enough stage, poor design of technical assistance, and unrealistic expectations or skepticism about the value of such assistance. The importance of securing the commitment of the recipient agency to the overall objectives and strategy of institutional development cannot be overemphasized.

9.05 Involving various levels of management in the diagnosis of institutional weaknesses and the search for solutions deserves special attention. Unfortunately, the belief that reorganization, improved management systems, and other solutions can be introduced by outside consultants, with little involvement of the users themselves, is common in many institutions in Indonesia, and is reinforced by the pressures for immediate and tangible results. The limited involvement of counterpart staff reduces not only the chance for transferring knowledge, and for designing systems that are compatible with sociocultural processes and available resources and skills. When involvement is limited to the technical staff, institutional development interventions often lack an appreciation of the broader environmental and policy conditions that would be necessary to sustain them. This has consequences beyond the immediate success of a given set of institutional improvements; in the long run, as tasks and environment change, it limits the capacity of managers to solve future problems.

9.06 The overall management capability, particularly at the top, is a critical determinant of an institution's capacity to effectively utilize TA. The support of top management is particularly important where personalized management styles and centralized control of resources give executives the power to thwart or pursue any given effort. There are examples of institutions which have received substantial assistance from several aid agencies but with limited results, partly due to the lack of commitment by its leadership.

9.07 The external policy environment has a significant impact on the effectiveness of institutional development activities. Often trainees return from overseas tours with advanced degrees and high expectations but, once back on the job, their skills remain relatively untapped. This was especially true in some university upgrading programs. Under a local government training project (foreign aided) training of trainers was completed; however, these scarce resources were idle for over a year, pending budgetary provisions of positions and supplementary allowances. Under these arrangements, there is no guarantee that trainers will be used once the project is completed. Similar experience with a vocational training project resulted in recently trained instructors being idle for more than two years; they became demoralized and lost much of their new knowledge and skills as time passed without practice.

9.08 The administrative requirements of both the recipient and the donor often work against effective utilization of TA. Within the recipient agencies, there is usually only limited ability to plan for, manage and coordinate TA. Selection criteria for choosing consultants often emphasize technical competence, almost to the exclusion of communication skills, cross-cultural sensitivity and understanding of feasible parameters within a given political/social context. Few, if any, criteria are established to evaluate the TA and there is thus little overall accountability for the success or failure of the venture. Within aid agencies, there are often standardized procedures across countries and centralized decision making, both of which contribute to excessive rigidity in TA projects. Moreover, there is seldom much coordination of TA activities between aid agencies working in the same field, thus compounding the problems of coordination within the recipient agency. The large number of aid agencies operating in Indonesia, and the complexity of institutional arrangements give this issue special significance.

9.09 A fundamental constraint to management and institutional development efforts is the frequent lack of cultural adaptation in most TA projects. Aid agencies, given their bias in favor of immediate results, are not generally disposed toward experimenting with different management models or techniques, even though they might prove to be more suitable to local conditions. Such technical assistance projects are unlikely to promote lasting institutional development. Building on, rather than discarding, cultural strengths could increase local support and involvement and thus contribute to better project design in the long run.

9.10 Experience in transferring management and public administration models to Indonesia suggest a strong bias towards tools that seemed transferrable.^{137/} However, the availability of such tools and the promise to provide quick self-contained improvements may have encouraged their misuse.

^{137/} William Siffin's penetrating assessment of "Two Decades of Public Administration in Developing Countries" (in Education and Training for Public Sector Management in Developing Countries, op. cit.), elaborates this experience and links it to the evolution of the discipline of development administration and the preoccupation of foreign aid with narrow economic analysis of projects.

Indonesia's cultural tendency towards formalism has further reduced the utility of these tools, by limiting their impact to elaborate "rationalizations" of existing formal structures and codified behaviors. For example, budgeting procedures led to tidy and authorized financial decisions but did not substantially influence priority setting and financial performance. Often, available Western managerial tools are used to "define" problems. The more demanding tasks of understanding indigenous administrative processes and selecting or developing appropriate technology to deal with them are bypassed. Moreover, since Western management tools (particularly in public administration) are devised for relatively mature institutions, they have aimed more at maintenance than development needs. While these may be appropriate for marginal improvements of mature institutions, they are inadequate for developing the responsiveness of evolving institutions. Reliance on Western management techniques has also failed to take account of the indigenous environmental and institutional contexts where such tools are applied. They are thus generally unable to generate more effective managerial technology for developmental change.

Strengthening TA for Institutional and Management Development

9.11 The role of technical assistance should be to strengthen the managerial infrastructure and stimulate client organizations' capacity to learn and adapt over time. This would entail influencing the practices of senior managers, building effective information systems, promoting close linkages to client or user groups and capacity to anticipate and learn from the environment. Real improvement in managerial systems requires a long term perspective. For both donors and recipients this will mean according high priority to deliberate efforts aimed at institution building and counterpart training, the establishment of performance criteria to measure the effectiveness of TA, and a realistic phasing of implementation. Successful delivery of TA will be possible only when recipient's commitment is ensured through clearly stated and feasible objectives, and collaboration in project design and implementation. Often times, this will mean working through existing local institutions rather than creating special project agencies.

9.12 Whenever possible, TA for management and institutional development should be associated with local training institutions and consulting firms. This will require assessing various TA tasks and their skill requirements to determine appropriate local counterparts/collaborations. In fact, TA activities could provide an excellent vehicle for developing local management consultant firms, through learning by doing approach.

9.13 Foreign assistance for institutional development should be extended, as appropriate, to promising NGOs and private sector organizations. In various fields, private sector option should be considered carefully as they might be less costly, more responsive to users, more dynamic, and perhaps most importantly, less demanding on the already overburdened public administration. Often, this assistance may complement other TA efforts directed at public institutions.

9.14 The selection criteria for consultants for TA projects should reflect all relevant considerations, not just technical competence. Once

chosen, consultants should be briefed extensively on local conditions and given specific training assignments which should be reviewed periodically.

9.15 The government might consider means to strengthen its own ability to assess TA needs and to monitor TA once underway. Unfortunately, this is somewhat of a circular problem, since weak management capacity is what necessitates TA in the first place. However, heightened awareness of the problem, and gradual strengthening of the central government's management capabilities should improve its capacity to maximize the benefits from TA. As an initial step, line agencies might be involved in outlining a program for institutional development over the next decade aimed at eventually reducing their need for TA. An urgent task is to increase the capacity of central planning agencies (particularly BAPPENAS, the Cabinet Secretariate and LAN) to plan, coordinate and evaluate national TA activities and to formulate policies and strategies for institutional development. Major donors' TA programs might be reviewed in this context.

9.16 The degree of cultural adaptation and relevance in TA projects aimed at management development will be a fundamental determinant of their success in achieving lasting organizational improvements. For example, in a group oriented culture, like Indonesia, TA should address work teams and whole organizations as targets for change, not just individual managers. Other cultural traits which might be incorporated into effective management techniques include, inter alia, the preservation of "face", the avoidance of conflict and a strong desire for social harmony, and group oriented decision making (see Chapter 2). Indonesia's disposition toward group based action could be complemented by encouraging participatory management techniques and providing incentives for delegation and involvement at all staff levels.

9.17 Some examples may help to clarify the concept of cultural adaptation. For example, the Delphi research method was recently tried in Indonesia on the premise that it can build on group oriented decision making, and broaden participation within the hierarchical structure, while avoiding open conflicts. This technique improved the productivity of group discussions, imposed discipline and time constraints on the consensus process, and provided a balance between the need to produce change and to maintain harmony.^{138/} Another example is the use of Organizational Development methods (OD) to educate managers in "process" skills that are critical to overall organizational performance in Indonesia. OD methods focus on increasing organizational "openness", improving information sharing and feedback, promoting horizontal coordination, and, in general, encouraging organizations to become more performance oriented. OD methods may be more relevant to Indonesia's management problems than many of the more easily imposed but less relevant quantitative techniques.

9.18 The well know management technique of Quality Circle (QC), associated with Japan's productivity and quality movement, illustrates another

^{138/} Bacon, Colin: Delphi Research Method: An Experimental Trial in Indonesia, in European Management Journal, Vol. 1, No. 1, September 1982.

successful adaptation that builds on supportive social conditions. Although the technical basis for QC was developed almost 100 years ago by British and American industrial engineers, using statistical techniques for quality control, Japan borrowed these techniques, simplified them and made them available for group oriented problem solving at the production level. This adaptation was disseminated through a mass movement. The widespread success of the QC was facilitated by Japanese firms' use of extensive on-the-job training. The average Japanese employee received approximately 500 days of training in this first ten years of employment. Managers were also determined to train these production level employees and then to delegate to them the power to change the organization of work to bring about productivity improvements.

9.19 In summary, management and institutional development should be viewed as an evolutionary process, requiring continuous experimentation, adaptation and learning.^{139/} The best clues for promising managerial interventions, particularly those concerned with personnel, come from an examination of cultural traits. Management improvements and administrative reforms require continuity of TA, within a long-term and adaptive strategy. In addition, Indonesian managers and educators should begin to identify and develop their own "home-grown" management practices, which, if subjected to continuous evaluation, could have a greater chance of success than externally imposed Western models.

9.20 Aid agencies should actively support the search for culturally adapted TA models, through field testing, experimentation and collaboration with local consultants and research institutes. This also implies a relaxation of donors' centralized decision making in favor of greater delegation to field staff to respond to field situations. Thus, both the donor and the implementing agency would undergo a learning experience. Implementation targets and generation of project results should reflect the absorptive capacity of local institutions.

Two Examples of Successful Technical Assistance

9.21 It would certainly be inaccurate to leave the impression that TA has been uniformly ineffectual. There have been several cases of highly successful TA in Indonesia which demonstrate that such problems can be overcome in the context of regular development projects and which are worth studying for replication. Two of these, the Provincial Development Program (PDP) and PUSRI, a public sector enterprise are described below.

9.22 The Provincial Development Program (PDP), begun by the Government with the assistance of USAID, aims at strengthening provincial and district agencies to enable them to prepare simple projects and coordinate multi-sectoral activities. PDP funds small-scale projects which contribute directly to the landless and rural poor. Experience in preparation and implementation

^{139/} As indicated in the synopsis of the Japanese experience Annex 2 to Chapter 8. Also see Selauk Ozgediz, op. cit., pp. 65-76.

of these pilot projects is used to identify training needs, and necessary improvements in planning and designing future projects. PDP illustrates technical assistance which is not based on predetermined management techniques and solutions, but on creative problem solving and learning by doing. PDP strategy has focussed explicitly on decentralized planning and implementation, heavy involvement and commitment of local staff, and experimentation with small projects. The expansion of PDP has been gradual and characterized by continuity in technical assistance, ongoing reassessment of program strategy and objectives, careful training of counterpart staff, and financing complementary activities, such as training of local government staff.

9.23 A second example of successful TA is PUSRI, Indonesia's first public sector fertilizer company, assisted by a series of World Bank projects. A unique feature of PUSRI's development has been its personnel policies which aimed at ensuring high quality, not only in top management, but at all staff levels. TA was instrumental in designing and experimenting with such personnel policies and management systems. As a result, PUSRI has made extensive use of on-the-job training techniques to build internal management and staff capabilities at all levels and has provided a package of incentives, such as promotion policies, competitive compensation and stability of tenure, to motivate and retain staff. Cost centers and management information systems have been employed in performance measurement.

9.24 PUSRI's experience also highlights the useful role of "twinning" arrangements, namely linking up with an experienced foreign collaborator in the same field as the recipient institution in this case in the USA. Under this arrangement, TA was provided in a number of ways: PUSRI's managers visited the collaborator's plant; specialists from the collaborating company worked with PUSRI's staff, first as co-implementors and later as advisors; training was provided through formal and informal channels; and visits to the collaborator's facilities and other on-the-job experience offered a "hands-on" learning experience for PUSRI's employees.

9.25 There are a number of other successful TA experiences in specialized management and institutional development projects. One notable example is the successful institutionalization of the National Planning program course (PPN) which was the result of a decade of collaboration among the University of Indonesia's economic institute (LPEM), the Economic Development Institute of the World Bank, and the Ford Foundation. Another is the assistance of several foundations to LPPM. A third is the joint effort combining consultancy, research and training by the Institute of Local Government of the University of Birmingham, the Department of Finance and Home Affairs, Bappenas and University of Indonesia (LPEM) on issues of central-local government financial relations, and training in regional finance. Local government training and professional resource development/in-country management training projects, with USAID assistance, have focussed on improving the effectiveness of ministry-based management training, and have emphasized new concepts of training, and the development of local case materials and a core team of trainers. More recent efforts have begun to use ministry experience as a source of case materials and to encourage trainees to apply course concepts in solving specific problems. These latter efforts are at an early stage of development and further successful implementation will require further inte-

gration of training with other organizational development/process consultation activities. In addition, there are some ongoing management development programs at a few large enterprises, mostly under joint ventures, and at some of the state banks which are also worth studying for replication.

B. Potential Areas for Assistance

9.26 In general, aid agencies can support national efforts to develop management systems and skills 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 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 task forces within 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 needs.

9.27 The strategy for developing management education and training presented in Chapter 8 points to a number of areas in which aid agencies could provide valuable assistance. Four potential areas are discussed below.

9.28 Assistance for Study Tours and Faculty Development. Study tours abroad by senior government officials, businessmen and university and public sector training faculty have been identified as an important source of management training. However, the selection of the most suitable tour, ensuring the competence of the foreign institution and the relevance of the training program, may be difficult in the absence of external advice. Donor agencies may assist in identifying appropriate institutions and organizations to visit, arranging suitable study programs, disseminating the findings of such tours to concerned domestic audiences, and developing twinning arrangements.

9.29 Specialized Consultance Services. TA might be used to promote local management consulting capabilities, which are extremely underdeveloped at present. Priority areas for assistance might include: advisory services to the National Forums for Management Development, surveys of training needs and skills analysis and feasibility studies for new institutions. More specialized services would be required to set up new libraries, audio-visual facilities and computer systems in national training centers and universities.

9.30 Institutional Development. The emerging private management education institutes and upgrading activities aimed at universities and government training centers would benefit from technical assistance from donor agencies, particularly in selecting foreign collaborators, faculty development, design of training materials and curricula, and physical

facilities. Assistance to departmental and sectoral training centers should be increasingly linked to overall sectoral and organizational development strategies and to improvements in personnel management systems and policies. Forms of assistance may thus be expanded to include processes consultation that would link overall institutional/sectoral strategies to organizational development and then to improved management process.

9.31 Long-Term Advice. There are many areas in which Indonesia could benefit from foreign advisory services for some time to come. In the areas of administrative reform and developing management education and training institutions, Indonesia will require advisory services for the next decade. Similarly, in building up a national management movement and strengthening management associations, in-service training centers, consulting organizations, etc., long-term advisors (for two or more years) will be needed. Long term consultants would be expected to stress counterpart training, thus enabling institutions to become self-reliant as fast as possible.

9.32 Short-term and long-term assistance are often interrelated, and can thus be mutually reinforcing. Opportunities for long-term associations often follow in the wake of short-term interventions. Study tours abroad, overseas training, or in-country training programs by foreign institutions can all lead to longer-term collaboration between foreign and Indonesian institutions. Aid agencies therefore should recognize that necessary longer-term support may eventuate from initial short-term intervention.

9.33 There are a number of countries, both developed and developing, and several international agencies whose experience in management development is relevant to Indonesia. Members of the National Councils for Management Development and leading educators, with the assistance of donor agencies, might survey and evaluate the various capabilities of countries, agencies, and educational institutions. Donor agencies will clearly have a vested interest in projects which tap their own resources. Concerned Indonesian managers must therefore familiarize themselves with the wide spectrum of services available so that informed choices can be made. The brief sketch of donor capabilities given in Annex 1 to this Chapter is intended only to start this process by outlining the diversity and rich experience available. Individual aid agencies will have a great deal to add on their own country and institutional capabilities.

C. Conclusions for Technical Cooperation

9.34 It is important to build on wealth of experience the Government of Indonesia and donor agencies have accumulated in technical cooperation for institutional development and training. Each donor should thus assess its comparative advantage in planning its future contribution.

9.35 In TA for institutional and management development, it is important to adopt a collaborative learning approach which permits adaptation in the light of experience. TA should go beyond the transfer of specific tools and "solutions", towards a better definition of institutional problems (and their environmental sources) and specifically tailoring tools, policies and systems to deal with them.

9.36 There is a need for donor agencies to take a long-term view of project related training needs to institutionalize successful training approaches by building linkages with local training institutions. With numerous aid agencies involved in management education and training, there is also a need for improved coordination; the strategy proposed in this report might provide a framework for such coordination.

9.37 The transfer or adaptation of management concepts, skills and practices must be based on sound understanding of the socio-cultural setting of Indonesia. It should build on cultural strengths. The active participation of Indonesians is essential to facilitate this process.

9.38 In implementing the proposed strategy for management development, Aid agencies may wish to distinguish between immediate and long-term assistance.

Immediate assistance might include:

- (a) Short term advisory services to the proposed National Forum for Public Management Development, to existing professional associations, to the task forces on institutional development in selected ministries and to interministerial task forces on selected policy reforms;
- (b) Study tours and short term training overseas, especially for senior management;
- (c) Organization of short term senior management seminars in Indonesia and abroad;
- (d) Short term training of trainers programs for government, industry and priority sectors;
- (e) Language training for studying abroad; and
- (f) Detailed assessment of training needs in government and industry for specific sectors and for selected management development institutions.

Long term assistance may include:

- (a) Long-term assistance for policy and systemic reforms;
- (b) Development of Indonesian faculty through study tours abroad, using visiting professors as substitutes during training;
- (c) Institution-building: twinning arrangements, consortia, and support for faculties of management and public administration and possible new institutes.
- (d) Development of training materials and aids;

- (e) Joint research projects with particular focus on the effective transfer of certain managerial technologies;
- (f) Development of local management consultancy and assistance to business and professional associations to promote local and national management movements; and
- (g) Assistance in building physical infrastructure: libraries and communication facilities at existing universities, and facilities for the emerging Institutes of Management and regional training centers.
- (h) Addressing management improvement needs in the context of all project and sector lending operations.

9.39 Donor agencies may wish to phase their participation by focusing on areas of immediate relevance and then move into long term assistance. For example, pilot or experimental projects may be used to test out new training methods or incentives and thus learn from experience on the ground.

9.40 Some of the major inter-related activities could be packaged into few large projects for foreign assistance. A project for public enterprise management improvement (estimated cost: \$50 million) might include establishing management development programs and management audits at selected enterprises, improving corporate planning systems, instituting organizational development performance improvement programs and provision of "process consultancy" services, and developing the public enterprise units at the Ministry of Finance, and the supervisory ministries, possibly combined with selective financial restructuring programs. A technical assistance project for Central Government management development (\$30-40 million) might include assistance to organizational development programs at selected ministries and central guidance agencies, comprehensive assistance to LAN, in-country and overseas training of a critical mass of senior public managers, various studies to improve public policies in areas influencing the performance and development of managers, and technical assistance to the National Forum on Public Administration and the various inter- and intra-ministerial task forces recommended. This project might also include the development of public administration education at selected state universities. A separate project may focus on local government administrative development activities (\$20-30 million), including the proposed regional centers, decentralization systems, key management systems of selected provincial and district administrations, and support functions of the Ministry of Home Affairs. A management education project (\$50 million) might include the development of management faculties at selected public universities, a financial assistance program for promising private management institutes, and a general organizational and management development program for the Ministry of Education. Apart from these, management improvement activities could become an integral part of project and sector lending programs of aid agencies.

9.41 The responsibility for management development basically rests with the Government of Indonesia; however, donor agencies could play a complementary and facilitating role. In an informal way, they could share information

and implementation experiences among themselves and develop mechanisms for follow-up and periodic assessment of the strategy proposed in this report.

9.42 Multinational corporations operating in Indonesia may be mobilized to contribute to the overseas study programs, to management education in general, and industrial management, in particular. Several large corporations have already expressed interest in such projects.

Update

9.43 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.

9.44 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 9.1). This list is concerned with the early phase of the proposed long-term strategy and will be adopted and updated in light of the Government's own experience with implementation of these projects and its continued dialogue with interested aid agencies.

Table 9.1: PRIORITIES OF GOI FOR MANAGEMENT DEVELOPMENT

No. Subproject	Objectives
1. Conduct a program to identify managerial skills needed in departmental and non-departmental agencies.	<ul style="list-style-type: none"> - 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.	<ul style="list-style-type: none"> - to initiate pilot programs targeted at senior executives in public and business management, using consortia from IDMA, 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.	<ul style="list-style-type: none"> - 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.	<ul style="list-style-type: none"> - 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.	<ul style="list-style-type: none"> - 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.	<ul style="list-style-type: none"> - 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.	<ul style="list-style-type: none"> - 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. (one time expense)- to cover annual operating costs, faculty salaries and administration.
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 central government staff)	<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.
