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Growing Pains, Lasting Advantage

Tackling Indonesia’s Talent Challenges

Dean Tong and Bernd Waltermann

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Many Indonesian companies will not share in the country’s explosive growth unless they can recruit, develop, and retain the right people.

**Shortages Are Acute**
Talent challenges in Indonesia vary by level. For the top positions, candidates do not have the necessary breadth or depth of experience. In the middle, a 40 to 60 percent shortage will likely emerge by 2020. At entry levels, Indonesia’s education system is not adequately preparing candidates for employment.

**The Eight Building Blocks of Talent and Leadership**
Poaching talent from the competition is ultimately a shortsighted and self-defeating approach. Rather, companies should start working on a comprehensive talent and leadership program based on eight building blocks. All of these building blocks matter; the weakest one will determine a company’s overall people performance.

**Getting Started**
Leading-edge practices take years to create and a lifetime to maintain. Companies that create an edge through their people practices will likely maintain it for a long time. This is especially true in Indonesia, where talent is so scarce.
In the mid-1990s, after the Indonesian football team was eliminated early in a regional tournament, President Suharto lamented: “We have more than 200 million people. There must be 11 of them with decent football skills.”

Indonesia has added 40 million people in the past two decades, but its shortage of talent has grown worse—and not just in football. Talent shortages threaten to undermine the country’s recent run of impressive economic performance.

Indonesia’s economy will likely break into the top 15 in the world in the next decade or so, but many companies may be left behind. They may need to scale back their growth plans unless they can recruit, develop, and retain the right people. This should be a top priority for chief executives in Indonesia. Fortunately, companies that act with foresight and persistence can become employers of choice and fulfill their growth aspirations. Others will falter.

Where’s the Talent?

Despite the challenges, there are bright spots in Indonesia. If demographics are destiny, Indonesia is in good shape. It is a young nation without a bulge of older employees approaching retirement, which is the case in Japan, South Korea, and most Western nations. Indonesia has a vibrant and growing middle class. The nation’s economic expansion is largely driven by domestic consumption rather than export-led growth, so it is less dependent on increasingly unpredictable global economic forces. Finally, like so many other emerging markets, Indonesia is an optimistic nation. It has the will to succeed. Companies will now need to accompany that optimism with strong moves to acquire and develop the right talent.

In a recent survey on people issues conducted by The Boston Consulting Group and the World Federation of People Management Associations, senior executives cited managing talent and developing leadership as the two most critical problems in Indonesia. (See Exhibit 1.) Indonesian companies face both talent quantity and quality issues at all levels throughout their organizations. (See Exhibit 2.)

At all companies, middle managers are crucial links, translating strategy into concrete business plans, communicating with employees, and managing the business—and most of the people within the business. In Indonesia, the shortage is already acute, and by 2020, a 40 to 60 percent gap between the demand for middle managers and the supply will have developed. When up to half of middle-
management jobs are unfilled, companies will struggle to hit their targets, motivate the frontline, and hold on to their overworked middle managers.

At senior-leadership levels, the pipeline is undeveloped. While modest leadership shortages may occur, the larger constraint is the lack of managerial and leadership experience, including global exposure. The shortage of entry-level candidates, meanwhile, is less severe than is their lack of education, skills, and training, but their numbers will quickly get worse, too. By 2020, top companies will be unable to fill about one-half of their entry-level positions with fully qualified candidates.

One of the main reasons for these future shortages is the expansion of the Indonesian economy into services. The service sector is expected to rise from 36 to 41 percent of GDP from 2010 through 2015. By 2020, 55 percent of the jobs in Indonesia will be administrative or managerial, compared with 36 percent today. Indonesia is not producing nearly enough graduates to fill these positions, and few of today’s graduates are sufficiently qualified. Only 22 percent of the college-age population is enrolled in a school in Indonesia, a lower percentage than in all of the BRIC nations except India. Top companies say that they only recruit from a small minority of the

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Sources: BCG and World Federation of People Management Associations (WFPMA) proprietary Web survey; BCG and WFPMA analysis.
nation’s more than 1,000 colleges and universities. Bandung Institute of Technology, the University of Indonesia, and Universitas Gadjah Mada are favorite choices among recruiters. Technical skills are also in acute shortage. Indonesia graduates about 30,000 engineers per year, but the economy requires about 50,000, a 40 percent shortfall. By 2025, the engineering shortage will rise to more than 70 percent.

To make matters worse, almost 60 percent of graduates switch jobs within their first three years of employment, and more than one-third switch jobs two or more times in that period. New employees leave for better offers but also because they are disengaged. Only 20 percent of employees say they are satisfied in their jobs. BCG’s people survey identified an unclear career outlook, insufficient compensation, and a lack of performance evaluation and recognition systems as the top three reasons for their dissatisfaction. (See Exhibit 3.)

The Eight Building Blocks of Talent and Leadership
Many business leaders in Indonesia are aware that they need to address the talent and leadership challenge, but they face a conundrum. Why make the investment in
talent and leadership if their competitors can poach their best employees? Why not poach talent that others have developed? These questions reflect reality. In financial services, for example, where severe shortages already exist, employees frequently jump from job to job. But poaching rather than developing talent is ultimately a shortsighted and self-defeating approach. It sends the unhealthy signal to employees that they need to change jobs in order to advance their careers. Companies that employ such a strategy will eventually lose their competitive edge.

Talent management and leadership development are not piecemeal exercises. Rather, they are like an eight-piece puzzle, and all the pieces matter. The weakest piece determines a company’s overall people performance. Companies can actually exacerbate their talent issues if they lack a comprehensive approach. Paying top dollar for talent without also providing follow-up career management and development, for example, is a classic mistake. Companies following this approach may be able to recruit top talent, but it will likely be tough to hold on to recruits who, without any motivation other than money, will eventually lose their hunger to excel. Below are eight building blocks—the pieces of the puzzle—that companies will need to fit together in order to create talent and leadership excellence.

1. **Strategic Leadership and Workforce Planning.** Companies need to anticipate their demand for and supply of talent and leadership. This should be a first step, but it is often overlooked. Strategic leadership and workforce planning is an exercise that models the future supply of and demand for people and then identi-
The Boston Consulting Group identifies how to close gaps. Such planning allows companies to think through their workforce alternatives.

The supply, of course, is determined by the projected availability of employees, taking into account likely attrition, promotions, and other movements. Demand is directly linked to the company’s strategy and growth plans. Strategy determines the markets that a company expects to pursue and the products or services it expects to provide—and consequently the size and capabilities the company will need and where. Furthermore, companies should anticipate and simulate several different demand scenarios, depending on expectations in key markets.

The final step in strategic workforce planning combines supply and demand calculations to determine the risk (the size of the shortfall or surplus) and its immediacy. Capacity risk may be quantitative (the number of workers) or qualitative (the competencies and qualifications of available workers). When spotted early enough, workforce shortfalls and surpluses can be addressed by a variety of measures, including recruitment, retention, cross-training, transfers, and outsourcing.

While this effort should be conducted across the organization, special attention has to be paid to leadership positions, generally the top 50 to 200 executives, as well as by critical positions, wherever they occur in the organization, and the capabilities and skills that will be required throughout the organization. The outcome of this review is a current and future “people balance sheet.” Strategic leadership and workforce planning can serve as a wakeup call to executives that talent and leadership demands their attention. In our recent work with a large Indonesian conglomerate, the analysis revealed that 30 percent of the company’s employees will retire in the next five years. To fuel its projected growth, it needs to double its workforce during that period. The magnitude of this impending gap fundamentally changed the perspective of the company’s leaders on their people challenge and their approach to address it.

2. A Recruiting and Onboarding Engine. Armed with the results of the strategic leadership and workforce planning exercise, companies need to start recruiting and hiring the people that they will need. In a job market as competitive as Indonesia’s, companies will not be able to merely put their existing recruiting efforts into overdrive. Rather, they need to build an entirely new machine that can process a much larger pool of applicants than they have traditionally sought. They will actively need to reach out to candidate pools rather than waiting for candidates to contact them. Companies must be willing to engage candidates while they are still in school by offering them internships and special training. Procter & Gamble, for example, holds marketing contests at top Indonesian universities as a way to build awareness and excitement about joining the company. Organizations also need to develop a well-executed process of candidate identification, screening, interviewing, and postoffer “selling” or follow-up. Line managers need to play a crucial role in recruiting and engaging candidates. They cannot delegate all of these responsibilities to the HR function.

This type of recruiting and onboarding will take traditional HR managers outside of their comfort zone. They will have to train many of their new hires, who will not
come equipped with all the skills and job experience necessary. Managers will also need to excel at marketing and HR brand building to reach new pools of candidates. Awareness of social media is a must for HR managers in Indonesia, which has among the largest number of Facebook and Twitter users in the world.

Pertamina, the national oil and gas company, is making good use of social media in its recruiting efforts. The company has nearly 50,000 followers on Twitter and Facebook and uses both channels to engage potential recruits. It responds quickly and individually to requests for information from students and tweets immediately about job openings. This instantaneous communication appeals to young people, who grew up online. Another example of a company using nontraditional recruiting techniques is a professional-services organization that has successfully experimented with a new entry-level program that was designed specifically for Indonesian graduates who are bright but unpolished. These candidates would likely get overlooked during conventional recruiting. The program provides structured training and exposure. At its conclusion, the strongest candidates receive an offer.

3. A Compelling Employer Value Proposition. With competition for talent so high, companies in Indonesia need to be able to set themselves apart from their competitors in the talent marketplace. They must raise the value of their brands by actively marketing their value proposition, or employer brand, to potential employees. A strong employer brand adds an emotional dimension when recruits are making their decisions.

Companies sometimes do not recognize the importance of their brand as an employer. It gives prospective employees a sense of what they will get out of employment other than a paycheck. Social media have created greater transparency about the inner workings of companies, so the employer value proposition must ring true. This is especially important in attracting members of the Millennial generation, who were raised on social media and care more about the soft benefits of employment than their parents did. Frisian Flag Indonesia, for example, emphasizes that it is “providing nutrition for Indonesia”—a higher purpose than selling milk, its main product.

Recent graduates are looking for career development, global opportunities, and a good salary, according to a BCG survey of Indonesian students at leading local universities. Management training programs can help strengthen an employer’s HR brand with these recruits by demonstrating that the company is willing to invest in them early in their careers. These programs also appeal to young people because they generally involve frequent rotation through different parts of the company, an accelerated career path, and better compensation.

At Procter & Gamble, new employees spend a significant amount of their time learning soft skills such as public speaking, written and verbal communication, and working in a multicultural environment. Successful new employees can expect to move into a Southeast Asian regional position within a few years of joining.

4. An Internal Talent Program. Companies in Indonesia will not be able to rely exclusively on external candidates to fill talent and leadership gaps. As a general rule, companies should try to fill at least two-thirds of their positions internally. If
outsiders are filling more than one-third of the open positions, companies will find it difficult to build and maintain a cohesive and stable culture.

Midsize and large companies should have between 50 and 200 high-potential employees to whom they are giving special attention. These employees should receive training and exposure to top managers and be considered for an accelerated and varied career-management track. They should be identified early in their careers and given opportunities to stretch and test their skills. Companies should assign a senior mentor or coach to these employees and enroll them in a career development program.

Only a few companies in Indonesia have started to identify their high-potential employees, and even fewer have started dedicated development programs to nurture them. HM Sampoerna, an Indonesian affiliate of Philip Morris International, exemplifies the commitment needed to build talent and groom middle managers to become senior leaders. At all levels of the organization, staff members take part regularly in evaluations and discuss and review their career plans based on one-, three-, and five-year projections of potential future roles. International assignments of one to three years are a key component of talent development. About 45 Sampoerna employees worked outside of Indonesia last year to support their accelerated development and the company’s pool of future leaders.

5. An Accelerated Training and Development Program. Given the talent shortfall at all levels in Indonesia, companies need to redouble their efforts in training and development. As highlighted earlier, training and development provide a strong signal to employees that their company cares about them, both now and in the future. This signal can take various forms. Larger companies can consider launching their own corporate university or academy to house their development programs. Astra International, a diversified conglomerate, for example, created Astra Management Development Institute in Indonesia, which manages development programs for new hires and the top two layers of leaders. Some companies, such as Neusoft, a local technology company based in China, take such efforts one step further by providing training to their suppliers and customers. This approach gives a competitive edge to companies that want to tighten their ties with key partners and accounts.

In a hypergrowth environment such as Indonesia, companies need to be creative about these programs. They should move beyond the traditional nature of their training and development platforms. (See the sidebar, “Ten Ways to Create Leaders in Indonesia.”)

6. Career Development Councils. A culture of meritocracy has the strongest influence on employee retention and development. Employees stick around when they know that they are recognized and rewarded on the basis of their performance and when their managers help develop their skills and career. This rarely happens in Indonesia. BCG’s survey of 5,000 employees at several companies in Indonesia revealed that most of these companies fail to establish a clear link between performance and rewards and tolerate poor performance, hurting employee engagement. (See Exhibit 4.)

Given the talent shortfall at all levels in Indonesia, companies need to redouble their efforts in training and development.
TEN WAYS TO CREATE LEADERS IN INDONESIA

When talent is tight and time is short, companies need to be creative about developing leaders. Below are ten best practices.

Expand Horizons
1. Require broad-based experience from future leaders, such as rotations through two functions, two business units, and two geographic regions.
2. Immerse leaders completely in unfamiliar markets by requiring them, for example, to work in rural Indonesia.
3. Temporarily assign leaders to external groups, such as industry groups, NGOs, and government panels.
4. Embed social causes into the business in order to generate loyalty among leaders.

Create Fast Tracks
5. Provide opportunities for high-potential leaders to "skip a step" in order to advance their careers.
6. Create a "critical assignments bank" to develop next-generation leaders and to allow older leaders to make valuable contributions late in their careers.

Accelerate Skills Development
7. Identify and map top talent in key markets and benchmark yourself against the best.
8. Offer experiences in which leadership must be shared, such as joint ventures and partnerships.
9. Give timely feedback, such as regular reviews after every assignment, in order to accelerate development.
10. Conduct quarterly talent reviews that systematically analyze the health of the leadership pipeline, diversity, and succession—and create follow-up plans based on the outcome of these sessions.

The ten practices are rooted in learning through doing and careful and orchestrated exposure to a range of new experiences rather than classic leadership training. You cannot teach many of the new skills in the classroom, but you can put future employees outside of their comfort zone and force them to confront, in a controlled setting, the challenges of doing business in Indonesia. This list of practices is neither exhaustive nor universal. Different companies will have different needs. What’s important is thinking about leadership in a new way.
Senior leaders need to be engaged in people and career development. One of the most effective and proven ways to ensure that top executives are taking people issues seriously is to have them devote significant time to a career development council that has real responsibilities. The council generally reviews the performance of the two levels of executives below it, establishes development plans for them, and provides ongoing feedback. The council can meet in conjunction with annual business reviews. At Astra International, chief executive Prijono Sugiarto and his leadership team devote a large amount of their time to an annual people-planning session. They discuss and dissect the performance, development plans, and potential successors of senior executives.

For career development councils to work, it is essential to build formal processes for career reviews, performance evaluation, and compensation management and training. In other words, a strong performance-management system needs to be in place. The system ensures that companies base people decisions on facts and figures rather than hunches.

7. A Nimble and Productive Workforce. Companies in Indonesia often find it challenging to create a productive and engaged workforce. Lower performers are frequently kept around because their cost is viewed as not too significant, and terminations and layoffs are perceived to be not the “Indonesian way.” It is never

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**EXHIBIT 4 | The Lack of a Culture That Rewards Performance Hurts Employee Engagement**

<table>
<thead>
<tr>
<th>Score</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor performance is actively addressed</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Attractive career opportunities are available</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Teams are recognized</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Compensation encourages people to do their best and is tied to performance</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

**Sources:** BCG “Engaging for Results” employee engagement survey responses from 4,568 Indonesian employees at 15 companies; BCG analysis.

**Note:** BCG’s survey measures the different elements that contribute to employee engagement. Results are compared with those of global benchmarks.
easy to let go of poor performers, but it is necessary in order to create a performance culture. If companies keep their low performers, they generally end up hiring somebody else to do the work. As more poor performers are kept around, companies are forced to add layers. Decision making slows. Morale suffers. And the productive employees receive the signal that poor performance is tolerated.

General Electric is an example of a company that is disciplined about removing the lower performers—not because senior leaders are ruthless, but because they want to enable the remaining employees to thrive. In a market such as Indonesia—where there is no tradition of workforce reductions—companies must earn the right to take this step. They need to have a rigorous performance-evaluation system in place that identifies higher and lower performers and is trusted by employees. And they need to have a recruiting and onboarding engine in place to find replacements, as well as training and development programs that will ensure the new employees can succeed.

Companies also need to be fair and transparent in the way they go about letting go of employees. Adequate notice and severance will go a long way toward smoothing the landing for the employees who are released and not alienating those who remain. An Indonesian technology company recently removed two layers and trimmed its workforce by more than 20 percent using a thoughtful and careful process. The remaining employees adapted to the leaner organization much faster than anticipated. The company’s approach laid the groundwork for the creation of a performance culture.

8. A World-Class People Team. An organization cannot create a world-class HR platform without a world-class HR team. Many of the HR organizations in Indonesia are mainly administrative in nature. They focus on filling vacant positions and managing payroll and benefits. Most companies do not invite their chief HR officers onto the executive committee or even to strategic-planning meetings.

Best-practice companies, on the other hand, view HR as a key strategic differentiator; they make people management the responsibility of all managers, not just the HR team. Managers are evaluated and rewarded for their adherence to HR KPIs. People issues are the responsibility of an influential top leader or an up-and-coming star. Either way, the HR executive has the required background to function as an effective partner to business leaders.

Getting It Right
Leading-edge people practices take years to create and a lifetime to maintain. But companies that create that edge will keep it for a long time. This is especially true in Indonesia, where talent is so scarce. The ability to attract, develop, and retain talent will mean more in the market and at the bottom line than the development of new business models and business connections.

Senior leaders may fully understand the importance of people issues but feel uncertain how to proceed with a major initiative while managing the explosive growth and urgent demands of their business. In our work with Indonesian organizations that have faced similarly difficult balancing acts, we have found ways
to embark on this journey while managing the business. In fact, a properly executed program can unlock some people constraints and resources quickly through proper design, staging, and implementation. In any case, the best time to start is as soon as possible. Why not now?

Like so many fundamental transformations, the start of a talent and leadership program can be overwhelming. Here are five lessons that have helped companies get started on the journey.

**Commitment from the Top.** It’s been said many times about corporate initiatives, but that does not make it any less true: the chief executive or owner of the company must be fully supportive of a talent and leadership program. Visible and sustained chief-executive commitment is the best way to signal the importance of an initiative to an organization. A lower-level executive will not have the influence to drive change.

**A Champion from Start to Finish.** While the chief executive or owner will lend authority and visibility to a talent and leadership program, it should be managed, from start to finish, by somebody else. This person does not necessarily need to be very senior but must be respected, passionate about people issues, and able to navigate throughout the organization.

**A People Roadmap.** Talent and people initiatives require planning and purpose. While executives may be tempted to tackle a few high-profile projects instantly, it makes far more sense to start slow in order to go fast later on. An initial roadmap will establish a cadence, a sense of magnitude, and a set of design choices that will permit the best decisions to be made. The purpose of a roadmap is to tell the story of the initiative in such a way that executives can easily understand what is happening and make corrections and adjustments to ensure that it stay on track. A roadmap breaks a large program into manageable pieces that seem much more attainable for everyone involved. A roadmap also reinforces the fact that companies need to get all elements of their talent and leadership program right. It encourages a comprehensive approach.

**Quick Wins.** While talent and leadership programs take years to implement, companies do not need to wait that long for results. Within a year or even less, companies can start to see tangible outcomes. For example, companies can create a career development council before they have implemented a comprehensive performance-management system. Even without perfect information, senior executives can get into the habit of regularly reviewing the performance of key employees.

**Clear Goals and Measurable Progress.** These programs need to be monitored rigorously by establishing metrics and systematically tracking them. (See Exhibit 5.) Senior leaders also need to think through the initiatives that matter most. Typically, the 80–20 rule applies: roughly 20 percent of initiatives drive 80 percent of the value. Many of these 20 initiatives require cooperation across the organization and thus are most likely to slip off track. Business leaders need to have early-warning indicators of when these initiatives are at risk so that they can intervene.
Talent and leadership are major management challenges even in stable economies. In a vibrant and expansionary place like Indonesia, the degree of difficulty rises exponentially. The good news is that the bigger the challenge, the greater the benefits of managing talent and leadership. Indonesia’s football team has continued to struggle in international competitions, but there is no reason that its companies need to suffer the same fate.

**EXHIBIT 5 | Example of a Scorecard to Track People Metrics**

- **Depth and sustainability of talent pipeline**
  - Leaders have at least three potential successors
  - Share of leadership positions filled internally

- **Leadership academy program outcome**
  - Competency development goals met
  - Individual performance improvement

- **HR capability to manage and run the program**
  - Number of executives in the leadership program
  - Number of internal trainers and coaches developed

Source: BCG analysis.
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