



**Institute of Social Studies**

Graduate School of Development Studies

**Changing Human Resource Management in an  
Indonesian State Owned Airline Company:  
An Effect of Privatization Process  
Case Study: PT Merpati Nusantara Airlines**

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## LIST OF ABBREVIATION AND ACRONYMS

- APM – Asosiasi Penerbang Merpati / Merpati Trade Union
- BPR – Business Process Reengineering
- BOT - Build Operate Transfer
- BPR – Business Process Reengineering
- BUMN – State Owned Enterprise in Indonesia
- CEO – Chief Executive Officer
- ERP – Enterprise Resource Planning
- ESOP – Employee Share Ownership Plans
- FKAK - Forum Komunikasi Awak Kabin / Cabin Crews' Communication Forum
- FKT - Forum Komunikasi Teknik / Technicians' Communication Forum
- FPM - Forum Pegawai Merpati / Merpati Employees Forum
- GIA – Garuda Indonesia Airways
- HPWP – High Performance Work Practices
- HR – Human Resource
- HRM – Human Resource Management
- HRP – Human Resource Planning
- IR – Industrial Relation
- IT – Information Technology
- MNA – PT Merpati Nusantara Airlines
- PA – Performance Appraisal
- PKB - Perjanjian Kerja Bersama / Employment Collective Agreement
- PM – Performance Management
- SBU MTC – Strategic Business Unite Merpati Training Center
- Sekar – Serikat Karyawan
- SHRM – Strategic Human Resource Management
- SOE – State Owned Enterprise
- TU – Trade Union
- VCCP – Voluntary Career Change Program
- WP - Human Resource and General Affairs Division (letter code)

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# CHAPTER I

## INTRODUCTION

### 1.1 Background

Privatization is known to be a solution to generate revenue and cut expenditure for the government, as part of the public sector reform or structural adjustment program. The core of privatization is the transfer of state-owned enterprises to private ownership (Kirkpatrick, 2002: 121-132). For many developing countries, privatization was seen as an omnibus policy which could reduce the budget deficit by forgoing subsidies to public enterprise, reduce debt by writing down the proceeds received from the sale of public enterprises, stimulate private sector investment and thus lower public sector investment, signal a new political climate and increasing the efficiency of former state-owned enterprises (Hoeven & Sziracki, 1997:4).

The reason for Indonesian privatization is explicitly stated in the explanation of Undang-Undang Republik Indonesia (Indonesia Constitution) No. 19 tahun 2003 on Badan Usaha Milik Negara / BUMN (State Owned Enterprise / SOE). It explains SOEs as agents of development and SOEs drive corporatism. Earlier, the Indonesian Government formed SOEs as a means to control sectors of production which are important for the country and affect the life of the people (Indonesia's 1945 Constitution, Article 33). However, as time goes, the performance of SOEs were not as expected, SOEs have been managed inefficiently and have been making losses for years; they could not provide high quality services and goods for a reasonable price and also could not compete in the global competition; therefore, there should be an attempt to increase productivity and efficiency of SOEs by restructuring and privatizing.

Privatization of SOE is a long process. Before the company is given permission by the government for a strategic sale, the management works forward increasing the value of the company. Many studies discuss preparation the privatization in areas of economic performance and politics, but Human Resource Management (HRM) has not been discussed extensively. This is very important because of several reasons. Firstly, the privatization goal is to increase productivity and efficiency. Some evidence has proved a positive relation between HRM and organizational performance (Wood 1999:367-413; Huselid 1995:635-72). HRM has a strategic role in organizational competitiveness since it integrates HR strategies into business strategies to achieve organizational goals (Storey, 2001:7). Secondly, HRM introduction is needed to change public sector employee

management – away from paternalistic style, standardized employment practices, life-time employment to private sector employee management – to rational management, flexibility and differentiation and accountability. Thirdly, human resources are the most important asset of organization and they need to be strategically managed. Before the radical economic reform many managers believed that their biggest problems were obsolete technology and lack of finance. But soon they realized that the real problem lies with the people, proper management, motivation and development of human resources (Vacha, 1995). These reasons make it important to consider HRM as an important factor in the privatization process.

### **1. 2. Case Study: PT Merpati Nusantara Airlines**

Merpati Nusantara Airlines (MNA), a state owned airlines company, is the second largest airline in Indonesia, serving domestic routes in the eastern part of Indonesia and some regional routes. Tight competition prevails in Indonesian airline business, which is marked by 30% industrial growth and tariff war between national and international airlines, low profit margin/high cost and low revenue (major cost items such as aircrafts, fuel, and spare parts are in US dollars, while revenue is in domestic currency). Inefficiency and financial problems had made MNA to adopt a strategy of low cost carrier and preparing for privatization in order to attract new investment. Some preparations have begun since 2002 to increase MNA's efficiency and attractive for investors, example preparation on finance, infrastructure, marketing, HRM and so forth. See Annex A for an overview of PT Merpati Nusantara Airlines. This research focuses only on HRM preparation.

### **1.3. Research Objectives**

This research aims at examining privatization preparation of a SOE and exploring the effects of privatization process to HRM (strategies and practices) and stakeholders and vice versa. It explores and describes stakeholders' perspectives on HRM and gives an added value to the HRM introduction within the company.

The specific objectives are:

- (i) To assess what has been done and what has not been done in the field of HRM in preparing for MNA's privatization
- (ii) To examine the implementation of HRM practices



- (iii) To examine the stakeholders responses to HRM practices
- (iv) To give recommendation to the privatization process in HRM area

#### **1.4. Research Questions**

The main research question of the study is as follows:

Can Human Resource Management help prepare a state owned company for privatization?

The case of PT Merpati Nusantara Airlines.

The sub-research questions are:

1. How does PT Merpati Nusantara Airlines prepare for privatization?
2. What are the HRM innovations that have been done for the privatization process?
3. What are the effects of privatization process to HRM strategies and practices?
4. How was the HRM innovation perceived and received by the workers?
5. How was the HRM innovation perceived and received by the Trade Union?
6. How was the HRM innovation perceived by the management?
7. What are the effects of HRM strategies and practices to privatization process?
8. What can be done to improve on this implementation?

#### **1.5 Research Methodology**

The research basically uses qualitative method. The research is exploratory and to some extent descriptive. It describes MNA's condition during privatization process and HRM implementation. It explores what has been done and what has not been done in HRM implementation. It explores how HRM innovation was perceived by workers, trade unions and management. It critically analyzes the goal of introducing HRM in privatization process by analyzing HRM strategies and practices.

The paper uses primary and secondary data. A survey was conducted from 31 August to 14 September 2005 to employees, trade unions and management (see Annex B for methodology in collecting data). The researcher had been involved as a Human Resource Planner and as a Change Management Team member in MNA from December 2001 to May 2004, therefore some of the information come from the researcher's observations and experiences.

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## **1.6 Scope and Limitation**

This paper limits the discussion to MNA's HRM strategies and practices that related to privatization process in 2002-2005. These are retrenchment, relocation, recruitment and selection, performance management, reward, career and training, communication, corporate culture, and industrial relations. The paper makes only a preliminary analysis of the newly applied HRM in MNA. In order to explore perceived impacts of MNA's HRM implementation, questionnaires were distributed to employees in MNA's Head Office and its branches by email. Therefore, there is a limitation in employee representation since not every MNA branch has access to email.

## **1.7 Structure of the Paper**

This paper is organized in five chapters. The first chapter is the introduction, which consists of research background, introduction to the case study, research objectives, research questions, research methodology, scope and limitation and structure of the paper.

The second chapter provides the theoretical framework in HRM and privatization and discusses methodology in collecting data. The third chapter encompasses the effects of privatization decision which has caused the implementation of HRM strategies and its practices; and the preparation to privatization processes in HRM for MNA. The fourth chapter discusses the perceived impacts of privatization preparation processes in HRM to stakeholders and vice versa. The fifth chapter discusses the effects of HRM implementation in increasing the company values during privatization process and concludes the research.

## CHAPTER II

### CONCEPTUAL FRAMEWORK

Chapter two provides the theoretical and analytical frameworks in HRM and privatization.

#### 2.1 Privatization and Human Resource Management

SOEs privatization in Indonesia has the goal to increase productivity and efficiency of SOEs by restructuring them<sup>1</sup>. A reform like privatization is going to change employment management strategies and practices of Human Resource Management (HRM). The intentions to introduce HRM are firstly, HRM has a strategic role in organizational competitiveness. HRM integrates HR strategies into business strategies to achieve organizational goals (Storey, 2001:7). Many scholars have proved a positive relation between HRM and organizational performance<sup>2</sup>. Secondly, an organization has to be adjusted from a bureaucratic organization into a private business line organization that shows a concern for customer needs. The employment practices also have to be adjusted to become more flexible. As a consequence, there is a need to change from SOEs employment management characteristics that are usually closer to Public Sector's traditional model Personnel Management – characterized by full time employment, job security, promotion and salary based on seniority to a Private Sector's HRM model – characterized by performance contract, promotion and salary based on performance (Boyne, 1999: 408-410). Thirdly, human resources are the most important asset of organization and they need to be strategically managed.

#### 2.2 Human Resource Management Model

Human Resource Management according to John Storey (2001:6) is “a distinctive approach to employment management that seeks to achieve competitive advantage through the strategic deployment of highly committed and capable workforce using an

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<sup>1</sup> Undang-Undang Republik Indonesia (Indonesia Law) No. 19 tahun 2003 on Badan Usaha Milik Negara/ BUMN (State-Owned Enterprises)

<sup>2</sup> Huselid (1995) studied the links between systems of High Performance Work Practices (HPWP) and firm performance. The results indicate that HPWC have an economically and statistically significant impact on intermediate employee outcomes (turnover and productivity) and short and long term measures of corporate financial performance.

Wood (1999) reviewed HRM has effect on performance through work intensification, in conjunction with the wage systems.

integrated array of cultural, structural and personnel techniques.” HRM strategies such as management of change and communication are going to mitigate the social impact of privatization (Hoeven and Sziracki, 1997:17), thus HRM implementation is very important to increase the value of the company in preparation of strategic sale.

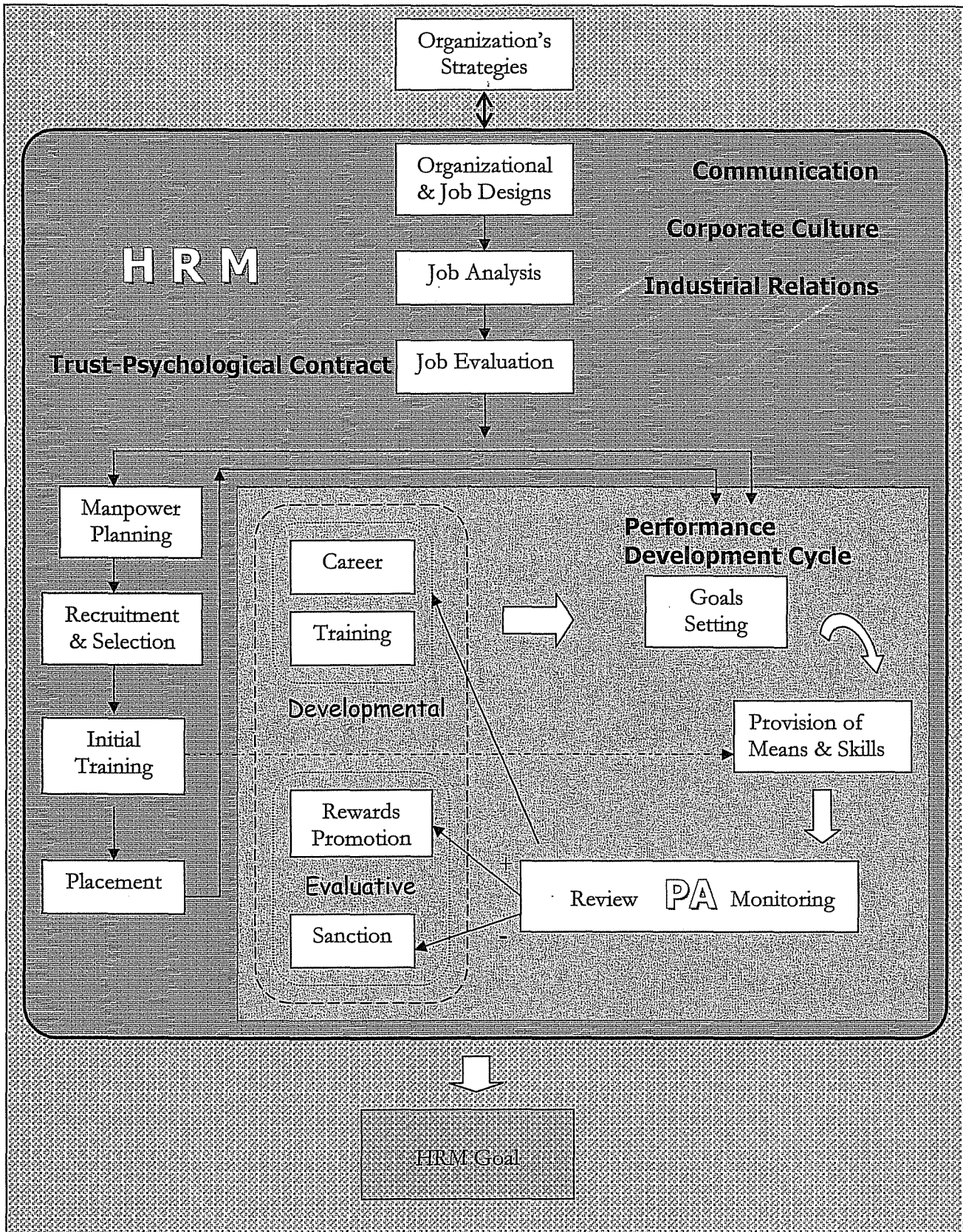
Legge (2005: 105) differentiated HRM model into ‘hard’ and ‘soft’ model. Hard model is defined as a process emphasizing “the close integration of human resource policies with business strategy which regards employees as a resource to be managed in the same rational way as any other resource being exploited for maximum return”. In contrast, the soft version of HRM sees employees as “valued assets and as a source of competitive advantage through their commitment, adaptability and high level of skills and performance”.

Many scholars (Storey, 2001:7; Armstrong, 2001:4) discuss the importance of HRM in an organization’s strategy. To be successful, the organization’s strategy has to be supported by HRM, which shapes certain employees behaviors. According to Maund (2001:36), Strategic Human Resource Management (SHRM) is “the development of strategic planning within an organization and concentrates on the relationship between the strategic planning and HRM.” SHRM’s role is to address any issue within the corporate plan which will affect people within the organization and is concerned most the activities of a business, such as organizational culture, performance, motivation, and human resource development. Figure 2.1 shows the relationship between HRM strategies.

Organizational and job designs are derived from an organization’s strategies. The job is designed based on optimal business process and accountability in order to maximize organization efficiency and effectiveness. Based on organizational and job designs, job analysis and job evaluation were carried out to build foundation for other HR systems. Job analysis is the process of acquiring information about one job. Job evaluation is the process of comparing a value of a job to the other jobs / job grading.

Based on short term and long term planning, the organization conducts manpower planning to ensure that the right numbers of people will be available for the right jobs at the right time. It follows by recruitment and selection of applicants who available and qualified to fill positions in the organization. After that, organization gives initial training to equip the new employees with the necessary skills and competencies and they are being allocated to their jobs.

Figure 2.1 HRM Framework



After a period, the employee follows Performance Development Cycle. It starts with setting up goals. The employee and his/her supervisor discuss the targets that have to be achieved and review the necessary means and skill to meet the target. Organization then provides the employee with necessary means and skill (this process is also linked with initial training). In the next process, monitoring process, the employee is given a chance to revisit his/her goals and objectives. In the review process, the employee's performance is being assessed through Performance Appraisal (PA). PA has evaluative and developmental purposes. It informs about employee's performance and his/her strength and weaknesses. It evaluates the employee by giving rewards or sanction based on his/her performance. It also develops employee by sending the employee to training or promoting the employee to higher job responsibility.

These HR strategies are influenced greatly by communication, corporate culture and industrial relation. Two way communications between management and employees facilitates employees' acceptances on HR strategies and to ensure their commitment and loyalty. Corporate culture exerts a positive influence on employees' behavior towards work. Industrial relations helps management to involve employees and trade unions in achieving company and employees' objectives. Psychological contract becomes the basis in achieving HRM goals. This tacit agreement between the organization and the employee is formed from their mutual expectations in the employment relationship.

## **2.3 Human Resource Management Theories**

These HRM theories below briefly explain the HRM strategies that related to this paper discussion.

### **2.3.1 Performance Management**

Performance Management (PM) is "a complete set of tools (such as reward systems, job design, leadership approaches, training efforts, and performance appraisal) which management uses to control, guide, and improve the performance of employees" (Carrell et al., 2000:225). Performance Appraisal (PA) is the ongoing process of evaluation and managing both the behavior and human outcomes in the workplace.

Cummings and Schwab (1973) in Anderson (1993:13-15) classify the two core PA objectives: the evaluative objective and the developmental objective. The evaluative objective of PA is in reviewing past performance of what has been achieved. Actual performance is assessed in relation to what is seen as desired performance. PA result will

be used in determining employee remuneration / compensation, staffing decisions and evaluating employee selection. The developmental objective concentrates on improving the performance of people by identifying areas for improvement, setting performance targets for the future and agreeing plans for follow-up action. PA gives performance feedback, direction for future performance, identifying training and development needs.

### **2.3.2 Training and Development**

Human Resource Development (HRD) is a planned action by a firm to improve the knowledge, skills, and abilities of employees (Carrell et al., 2000:255). The purposes of HRD are to improve performance; update employees' skills; avoid managerial obsolescence; solve organizational problems; orient and socialize new employees; prepare for promotion and managerial succession and satisfy personal growth needs of employees. HRM practices influence employee skills through the acquisition and development of a firm's human capital. Providing formal and informal training experiences, such as basic skills training, on the job training, mentoring, coaching and management development can further influence employees' development (Huselid, 1995:637).

### **2.3.3 Reward**

According to Huselid (1995:637), the effectiveness of even highly skilled employees will be limited if they are not motivated to perform. HRM practices can affect employee motivation by encouraging them to work both harder and smarter. For example by using performance appraisals that assess individual or work group performance, linking these appraisals tightly with incentive compensation system, using internal promotion systems that focus on employee merit. This compensation and reward can be both intrinsic and extrinsic. Intrinsic rewards include praise for meeting targets whereas extrinsic rewards have the form of both monetary and non monetary rewards. Compensation can be in the form of direct (pay) or indirect (benefits).

### **2.3.4 Career**

Career planning is "the set policies and practices an organization uses to provide for its human resource requirements" (Sonnenfeld et al., 1992 in Armstrong, 2000:595). This strategy fulfills the sustainability of human resource in the organization that requires meeting future business needs.

### **2.3.5 Corporate Culture**

Culture is defined as the collective values, norms, traditions, myths and institutions that are characteristic among members of a group. Culture defines people, context, human relationships and leadership – virtually every aspect of business (Trompenaars, 1994:12-34). A good culture exerts a positive influence on organizational behavior. It could help to create a high performance culture that will produce a high level of business performance.

### **2.3.6 Communication**

Communication in the organization is the provision and passing of information and instructions which enable a company or any employing organization to function efficiently and employees to be properly informed about developments. It covers information of all kinds which can be provided; the channels along which it passes; and the means of passing it. HRM applies a two way communication so that management can keep employees informed of the policies and plans affecting them and the employees can react promptly with their views about management's proposal and actions.

### **2.3.7 Industrial Relations**

Industrial Relation is concerned with the collective representation of workers through union organization and management's dealings with unions through joint consultation and collective bargaining (Gospel, 1992: 3 in Benson et al., 2000:185).

In Indonesia, the degree of state involvement in IR and HRM is medium (Frenkel, 1993 in Warner, 2000:180). The government promoted an ideology that emphasizes the shared interests of labor and capital as one big family. The creed Pancasila Industrial Relations supports good relations between employees and management, seeks workers' a sense of belonging, a sense of responsibility. The environment is influenced greatly by traditional Javanese culture which values harmony, peace and reciprocal obligations and abhors conflict (Ramaswamy, 2000: 215-216). It is supported by the fact that estimated unionization in Indonesia at the end of 1998 is 2%, which is very low (Warner, 2000:179).



## ***Industrial Relations and HRM***

Guest (2001:97) developed a simple framework for considering the relationship between industrial relations and HRM that offers four main perspectives.

**Table 2.1 Framework Industrial Relations and HRM**

		HRM Activity	
		High	Low
Industrial relations Activity	High	Partnership	Traditional Pluralism
	Low	Individualism	Black Hole

High industrial relations dimension: recognized trade union, worker representation, presence of local negotiation and consultation activity (for example, partnership agreements, senior level works council). High HRM dimension: an adoption of a large number of progressive HR practices together with some attempt at strategic integration. Organizations that recognize the legitimacy of industrial relations while also emphasizing HRM can be labeled mutual gains or partnership companies.

### **2.3.8 Psychological / Implicit Contract**

Psychological / implicit contract is “the largely tacit agreement made between the two parties with regard to what will be given by each and what each will take from the relationship” (Watson, 1995:139). Schein (1978)<sup>3</sup> states that “the employee will give in the way of effort and contribution in exchange for challenging or rewarding work, acceptable working conditions, organizational rewards in the form of pay and benefits, and an organizational future in the form of a promise of promotion or other forms of career advancement”. If either party breaches the contract, there will be serious consequences, such as demotivation, turnover, lack of commitment, or termination.

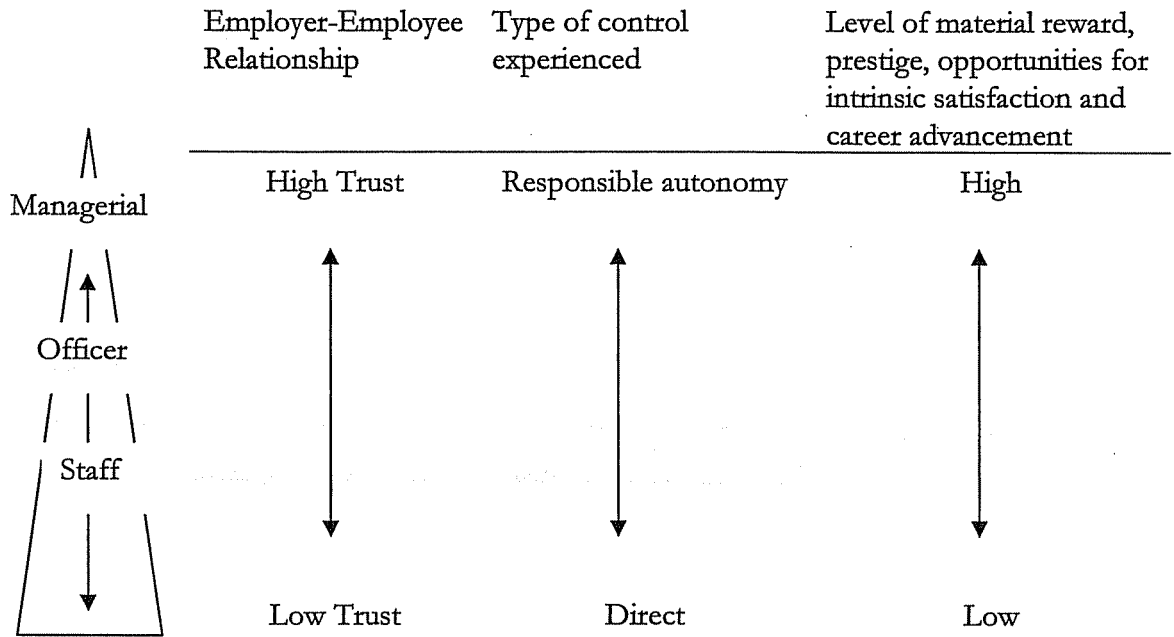
Implicit contracts are influenced by the types of work and work settings. According to Watson (1995:141-143), individuals located in different positions in organization tend to have different types of implicit contract with the employer. Those in the higher position, such as managerial position, tend to have a relatively diffuse implicit contract and experience a high trust relationship with their superiors. They have high level of rewards which “are reciprocated on the part of employees’ willingness to comply with organizational requirements on their own initiative responsible autonomy”

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<sup>3</sup> Cited by Watson (1995:139)

(Friedman, 1977)<sup>4</sup>. Whereas those in the lower class positions, such as manual staff, tend to have low trust relationship with superiors, which means, restricted type of implicit contract and lower level of rewards. See Figure 2.2.

**Figure 2.2 Two Ideal Types of Relationship between Individual and Employing Organization**



Source: Watson (1995:142)

***Model of the Psychological Contract***

Guest (2001:107) provides a model which can be used in the analysis psychological contract in employment relation. Based on this model, we can explore the antecedents (organizational context, policy and proactive) and consequences (employee attitudes and behavior) in psychological contract. See Table 2.2 below.

**Table 2.2 Guest’s Model of the Psychological Contract**

Antecedents	The State of Psychological Contract	Consequences
Organization Climate	Fairness	Positive Employment Relations
Human Resource Practices	Trust	Job Satisfaction
Trade Union Membership	Delivery of “The Deal”	Commitment
Individual Experiences		Motivation
Individual Expectations		

<sup>4</sup>Cited by Watson (1995:139)

The above theories serve as tools in chapter three and four to analyze HRM practices in MNA case study. Specifically, HRM model serves as analytical framework to discussion on HRM practices and the stakeholder responses. In the following chapter we will examine what sort of HRM innovations MNA adopted in order to prepare for privatization.



## CHAPTER III

# HRM PREPARATION FOR MERPATI NUSANTARA AIRLINES PRIVATIZATION

This chapter describes the privatization preparation processes for MNA study case for each HRM practices.

### **3.1 Preparation for Privatization**

MNA wants to privatize to get new fund / capital / investment to develop its competitive advantage and survive in competition. Inefficiency and financial problems had made MNA adopt a strategy of a low cost carrier and prepare for privatization in order to attract new investment (see Annex C for MNA's financial performances). Therefore, the most relevant reason to privatize is debt for equity swaps (debt reduction strategy, reducing public sector debts and gaining access to capital).

Privatization of MNA has taken a substantial period of time. It was a time-consuming preparation before the company was given permission by the government for the strategic sale. MNA's privatization team has actively been doing preparation in relations to strategic sale and invitation to investors. The result was that some foreign and domestic investors showed their interests in becoming investors in Build Operate Transfer (BOT) mechanism and ownership option after several years. But the government has not been giving permission for MNA privatization. The Minister of State Owned Enterprise stated that MNA had to follow a debt restructuring process. Minister of Transportation admitted that MNA needs financial assistance for the restructuring process and the government has been discussing the appropriate treatment to save MNA. MNA has debts of Rp 1.3 trillion, having problems in obtaining capital for restructuring its flight fleet and regaining consumers' trust. In July 2005, the House of Representatives finally decided to give financial assistance of Rp 450 million to MNA from the Government's Annual Budget (Kompas, 2005).

### **3.2 Preparation in Human Resource Management**

Since 2002, internal preparation (finance, organization restructuring, Information Technology, employment management) has been going on to increase the value of the

company for the strategic sale. The management introduced HRM to replace the traditional personnel management. CEO of MNA, Mr. Hotasi Nababan said, "The goal of introducing HRM is to manage human resource, as the biggest asset of the company, enable the company to have professional employees and be ready for privatization" (interview data). GM Human Resource and General Affairs, Mr. Suyadi said, "The goal of introducing HRM in privatization process is to create reliable human resource, the right man in the right place, the right man in the right job. Its background is to make MNA be able to manage human resource, as one of the important assets of the company, by giving more priority on managing human resource rather than personnel administration"(interview data).

The following sections discuss HRM preparation from 2002 onward. To simplify the discussion, the topics are divided into three general sections: restructuring of the workforce; restructuring of the human resource system; and management.

### **3.2.1. Restructuring Workforce**

#### **A. Voluntary Retrenchment**

On 9 October 2002, MNA launched the Voluntary Career Change Program (VCCP), a golden handshake program. The socialization process was simultaneously conducted in the Head Office and MNA's branches. The first socialization process was on 9 October 2002 in the morning which was attended by MNA's General Managers (Head Office and branches). In the afternoon, the socialization process was attended by all MNA's Head Office employees. The way BOD introduced VCCP was quite interesting. The BOD explicitly stated the competition in airline business is more difficult than ever. Thus, MNA needs a slimmer and flatter organization in order to make it easier to adapt to global competition. The management gave signals that the employees who want to stay in MNA are required to give commitment and to contribute to company productivity. A performance management system would be implemented and this would set targets for each individual employee and it would become management's tool to dismiss employees who could not meet their targets. In short, there would be a harder employment relation. Therefore, the employees were given a chance to take VCCP as an alternative to pursue their career in another field. The socialization in MNA branches then conducted by GM Regions and they were equipped with socialization tools (Video CD and brochures)

The VCCP offer was open to 700 employees, a number determined by the available funds. VCCP applicants had to meet some requirements: maximum salary, maximum age, minimum year of service, recommendation from supervisor, and so on. The compensation was relatively good as on average employees could receive 30 times their monthly salary. Until the closing date for VCCP application 767 employees had applied for VCCP scheme.

In the end, the VCCP scheme was released for 577 employees (17% of MNA employees) with a total retrenchment compensation cost was about Rp 53.000.000.000,-. The payments were divided over 4 periods since MNA had financial limitations. The payments for participants in the third and the fourth periods were postponed (313 participants) and as a result MNA continued to pay these participants their monthly salary. Finally in December 2004, MNA managed to pay all VCCP participants. As a result of payment postponing, MNA had to pay additional cost of Rp 5.136.907.702,-.

There was one program that management had missed during VCCP process. Management had promised business advisory assistance for the participants, to facilitate the reintegration into other forms of employment. But it was found later that the business advisory service was only a promise that never realized.

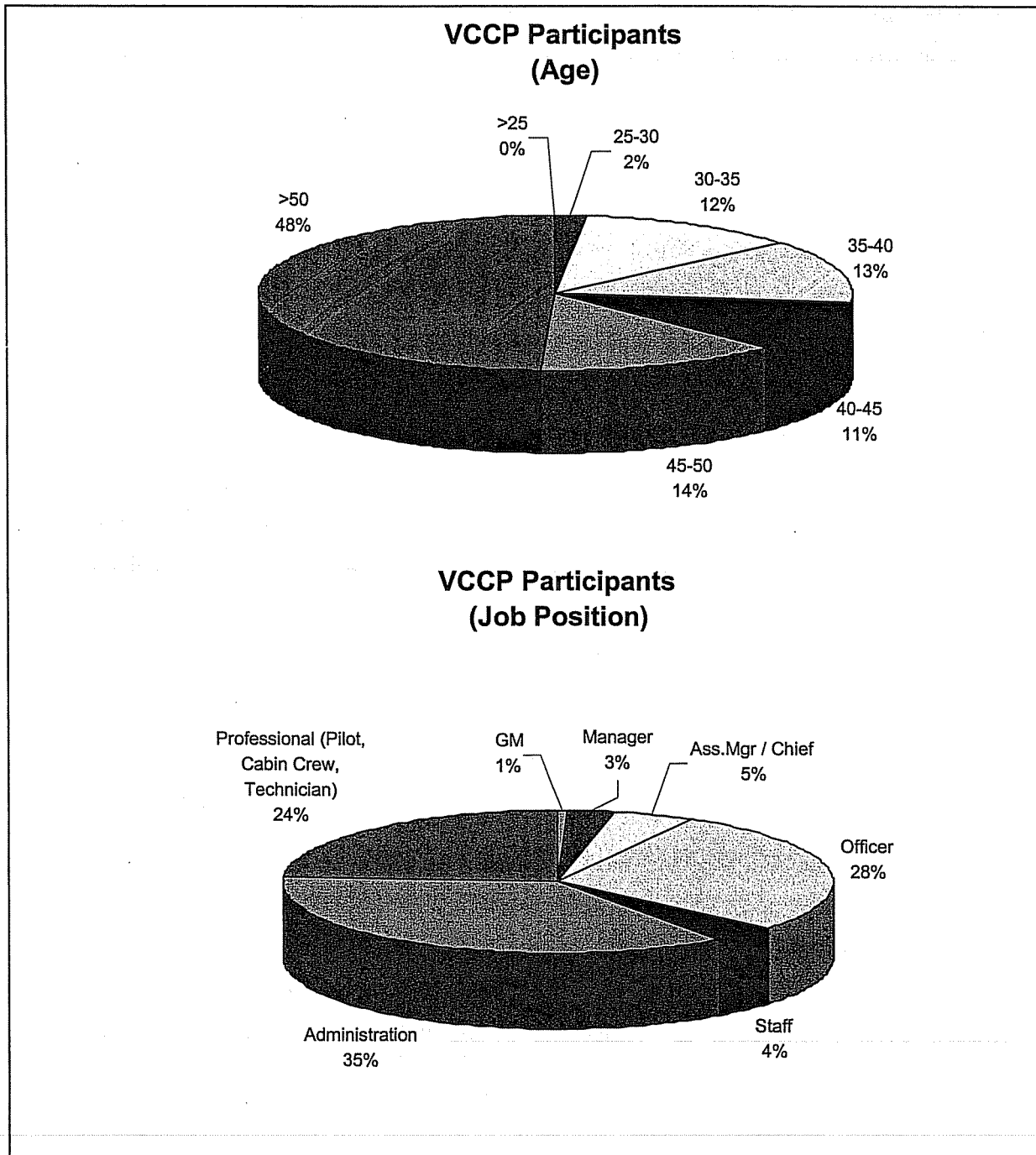
The management aims for VCCP program were to reduce overstaffing and to target employees on administrative jobs. As a result of its past strategy in recruitment and also airlines business downturn, MNA had overstaffing / redundancies in administrative jobs. Therefore, target groups of VCCP were administrative employees and relatively low productive employees.<sup>1</sup>

Based on types of job (see Figure 3.1), only 35% of participants come from administrative jobs, whereas more than half of participants come from specialists (28%: officers, 24%: *profesi*) such as technicians, pilots, FOOs and officers in various directorates. Looking at the age structure, 62% of the participants were in the category above 45 years. Management targeted employees above 45 based on the assumption, employees above 45 age category are less productive. Therefore, VCCP relatively was not successful in meeting target of administrative employees but relatively it was successful in meeting target of low productive employees.

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<sup>1</sup> Low productive employee is defined from age structure based on management assumption.

Figure 3.1 VCCP Participants



One of consequences in VCCP is that some well performing employees left, although the company had plans to retain them. This usually happens in bonus-related voluntary retrenchment.<sup>2</sup> The golden handshake provision encourages the most productive workers to quit, leaving relatively less productive workers with the firm.

<sup>2</sup> To secure political support for privatization and the cooperation of the unions, the governments in Pakistan and the Republic of Korea have offered generous termination payments for employees who



In conclusion, VCCP was quite successful in targeting low productive employees, it was also successful in minimizing employees and trade unions resistances even though the management had budget limitations, undelivered business advisory service, failed to target administrative employees.

## **B. Workforce Relocation**

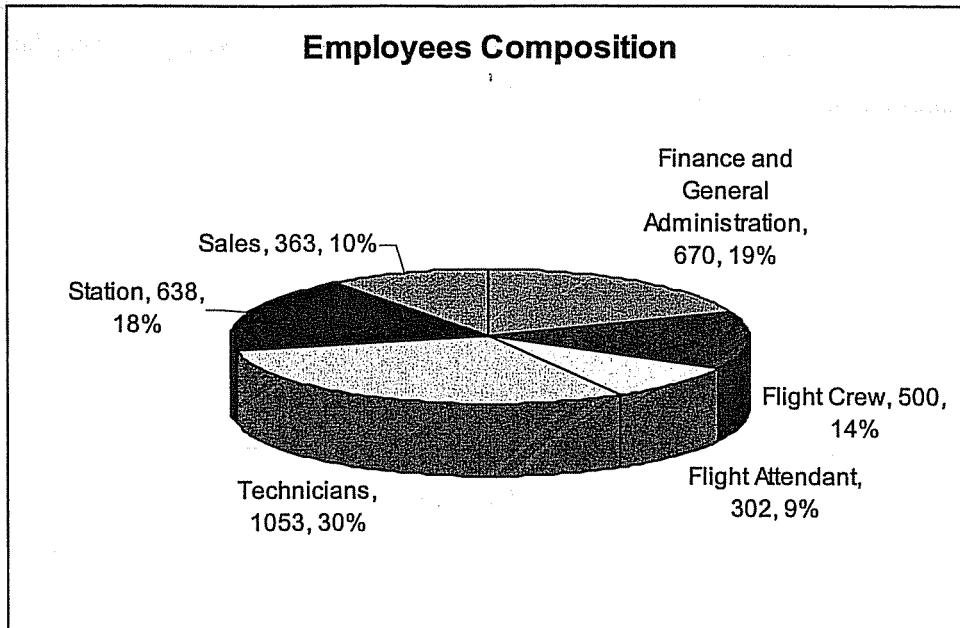
Workforce relocation was driven by three factors: changing business strategies, IT implementation and organizational restructuring. MNA is changing its business strategies into low cost airlines and concentrating more on expanding sales. Then, some strategic decisions were made regarding automation of business processes, network restructuring and people based service. These strategic decisions directly affect human resources. MNA closed some unprofitable routes and this is going to affect the districts related to the routes. In some districts which get affected by closed unprofitable routes, less manpower is required. While, in some districts which get affected by expanded routes, more manpower will be required. Therefore, the consequences were that MNA had to relocate the workforce from non-active districts to the active districts or from MNA's head office divisions to MNA's regions and districts. The relocation decision was based on a cost benefit analysis. The HRM division considered some factors such as relocation cost for the employee, willingness of the employees, and employees' competences. Because there is an excessive number of employees in MNA's Head Office (especially administrative employees), HRM division decided to offer administrative employees to change to sales area. The administrative employees in Jakarta were relocated to the Jakarta region. They mostly come from cost center units (for example Human Resource Management Division, Accounting Division, Finance Division, and so forth) to profit center unit.

Percentage of MNA's employee in sales area was only 10%, which was not enough to support MNA's strategies to expand sales (see Figure 3.2). In October 2003, MNA began to reengineer the workforce. It relocated 5% of support staff from administrative jobs into sales and services. MNA provided sales and service training to facilitate their adjustment to new skills and knowledge.

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voluntarily leave overstuffed companies after privatization. But the scheme entailed considerable costs to the Government, and it also backfired on the enterprises. The "golden handshake" provision encouraged the most productive workers to quit, leaving relatively less productive workers with the firm (Kemal, 1993)

**Figure 3.2 Employee Composition Before Relocation**



Source: Suryanti, et al., (2004)

In January 2004, MNA launched the implementation of the Enterprise Resources Planning (ERP) application, an integrated, online, real-time software that supports many functions of business such as Financial, Accounting, Material Management, Human Resources Information System, and so on. This has resulted in the reduction of a number of employees in the units that were affected by ERP implementation. For example, the total number of employees in Accounting Division before ERP was 94 persons. After ERP that number now is only 41 persons.

ERP implementation has also affected the organizational structure. It needs Business Process Reengineering (BPR). Aligning the organization to the technology is a key success factor for delivering the return on investment of ERP. It will change the job design / job descriptions, individual and group performance measures, and the description and prioritization of organizational plans. The benefits are, firstly, it depicts the jobs tasks, education, tools and skills needed to support the new target environment. Secondly, it avoids overlapping activities for all principal roles, responsibilities and accountabilities and specifying skill requirements. Thirdly, it facilitates the development of new measures and rewards systems which retain good employees, and motivate behavior supporting the new goals.

The business processes were restructured into more efficient, effective and dynamic business processes. Management can get benefit by shortening the time to make strategic business decision supported by accurate data. The use of ERP technology also has increased employees' skills and competences. All MNA's employees that are affected by the new technology were equipped with necessary ERP trainings. They were introduced to the new technology which accommodates best practices. It means that MNA' employees will comprehend the business processes that have been applied in world class industries. Thus it will increase the value added of MNA's employees.

ERP implementation not only changes the technology (how people work and the tools they use), and the business process (what work people do) but also changes the environment and culture in which people work in the organization. This leaves a room for HRM to play. HRM is going to manage the transition from the previous state to a desired future state – targeting outcomes, processes, people and tools. It needs more discipline and professional attitudes. For example, the implementation of ERP requires an employee in Surabaya branch (one of MNA's branch office in East Java) to immediately entry fuel expense once after the fuel payment transaction completed. Then, the integrated and online system will inform financial budgeting officer in MNA Head Office Jakarta how much money remains in the budget. The updated, real time data makes it easier to directly make strategic decision about budget allocation, for example, whether to allocate the money to pay debts or to invest the money in a bank. If the employee in Surabaya is indisciplined and irresponsible, such as postponing data entry to ERP FI-CO, then it will mislead in making optimal strategic decision. Therefore, HRM with the communication and corporate culture is needed to manage the employees to the desired attitudes. There are three goals that can be achieved by communication. Firstly, communication promotes awareness and builds acceptance of the reengineered business process, organization and technology changes. Secondly, it educates all recipients on the goals of the technology project, the business case for change, and encourages participation in planning and implementing the change. Thirdly, it obtains feedback throughout the change process.

In February 2004, MNA reengineered its organization and reduced unnecessary division and branches, and identified its core business and Strategic Business Units. Some divisions in Head Office were merged into one division. MNA also simplified its districts (branches) regrouping, it consolidated regions from 7 regions into 4 regions and closed

districts which were not profitable. The complete MNA's organization structure before and after organization restructuring are illustrated in Annex D.

### **3.2.2 Restructuring Human Resource System**

HR system in MNA began in 1997 when the HRM division introduced a grading system as a tool to assess the value of a job compared to other jobs. This system assesses the competencies required to do one particular job. The higher competencies required to do one job, the higher value of the job will be. For example, a specialist's job which requires analytical and conceptual thinking receives a higher score than an administrative job which requires diligence and administrative skills. Grading system has changed MNA's salary structure. The payment structure takes into account not only the service year in salary structure, but also the job value. Before, a secretary's salary with a seven-year service who mainly does administration work was higher than a staff salary with a two-year service in accounting department (who collecting, processing salary data and preparing salary report for 37 districts). After the grading system implementation, the salary structure has taken into account the job value and has differentiated salaries based on job competencies. The new system has motivated competent employees since their competences were equally rewarded. After that, a more integrated HRM system reform began to start in order to prepare to privatization.

#### **A. Recruitment, Selection and Employment Contract**

Since 2000, MNA has not been recruiting fresh graduates for full employment. MNA applies zero growth employment policy since it has an excessive number of employees and overstaffing (the ideal ratio of aircraft to employee for airline company is 1:50-70, meanwhile MNA has a ratio of 1:115). MNA often relies more on temporary and part-time workers. Therefore, when MNA needs additional employees for peak season, MNA selects and hires fresh graduates on a limited 6-months contract to serve as front liner. For example, in 2005, MNA hires 121 employees on temporary contract bases for jobs at reservation and ticketing desk. MNA also applies contracting out of non-core jobs such as security and cleaning services. This strategy enables MNA to concentrate more on core business activities; to reduce employment cost; to increase productivity and to enhance job security for core employees.

After VCCP, the employment contract is now becoming more flexible. There is no guarantee for life time employment anymore. In the past, even though an employee made a serious mistake, such as corruption, management did not dismiss his/her. The alleged employee only got 3 months suspension. But nowadays, the management applies hard employment management, in which the employee who makes a serious mistake will face dismissal.

## **B. Performance Management**

In January 2003, MNA launched a Performance Management (PM) to measure employee performance. This new system has been applying concepts of self assessment, Management by Objective (MBO), and two-way feedback. Self-assessment means that the employee is given the opportunity to comment on his or her own performance in the appraisal forms. In MBO or results oriented scheme, the appraiser is required to rate employees against previously agreed objectives or key results areas. Appraiser and employees participate in the objective-setting process.

Before the PM implementation, MNA already had a Performance Assessment, but the system was traditional in its nature and based on Performance Assessment for civil service. It did not integrate between organization goals and employee goals, only listed employee activities without setting targets what and when to achieve. The assessment was subjective and not transparent. It was conducted only by a superior without giving feedback to the employee. It also did not have performance indicators. The new system, PM, integrates organizational objectives with employee goals and involves employee participation in work planning. The new system is transparent and objective, since it has 180 degrees assessment that involves superior and subordinates. PM has headings that consist of performance and motivation factors. Performance is indicated by target, contribution, and supervision. Motivation is indicated by communication skill, attention and initiatives, interpersonal skill and attendance. At the end of employee assessment, all PM individual results are categorized within each division based on classification: "A: Good", "B: Average" and "C: Under average" and it will be used for promotion, rotation and training decisions.

Even though the PM system is better than the previous one, there were some difficulties in implementation. There were not enough active support from the top, lack of socialization among employees, lack of monitoring and also problems with the PM

forms (it was time consuming to fill in the form and it needed improvement in indicators). In January 2005, management decided to change the PM system. The indicators are changed into more relevant indicators: work accomplishment and behavior indicators. Work accomplishment is indicated by productivity, planning and decision making; supervision and communication skill. Behavior is indicated by interpersonal skill, leadership, policy compliance and attendance. The form also changed into more simple form and the assessment system also includes peer assessment. But there is other weakness in PM. MNA has not applied a performance-based incentive that linked to PM. Therefore it does not give significant impact on employees' motivation and performances.<sup>3</sup>

### **C. Reward**

In October 2003, there was 10-20% salary increase for employees. The salary was increased because of change in salary payment structure. Before, the salary component was based on job value and service years. The new payment structure takes into account not only job value but also skill and experience of the employee. Changing from Personnel Management to HRM needs implementation of performance based salary (Boyne, 1999). The promise of HRM is that performance based salary is going to motivate employees to contribute to organization performance. But MNA is yet to implement the system. It needs to establish its PM system and to design its career system to support the reward system.

### **D. Career and Training**

Merpati has Strategic Business Unit Merpati Training Center (SBU MTC) that provides training for other air transport related business organization. The trainings are operation training, maintenance training, commercial training, general and management training, simulator training and pilot flying school. The necessary skills in airlines business is very specific, therefore MNA has its own training center and it serves not only domestic airlines but also foreign airlines.

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<sup>3</sup> Huselid (1995) states that the effectiveness of even highly skilled employees will be limited if the company does not give efforts to direct and motivate employee behavior. For example by using performance appraisals that linked tightly with incentive compensation systems. Haque (2003) states that reforms in developing countries have been less than successful, as they tended to focus on downsizing and procedural changes without radically changing the outmoded incentives system. Therefore, it should be a productivity-based incentives in order to give them interest in managing the ongoing change.

In January 2004, the management used Performance Management result in 2003 to allocate some managerial positions in MNA. Promotion and rotation mostly happened in the Commercial Directorate since MNA strategic business has been giving more emphasis on expanding sales. Since 1998, MNA has been facing difficulties to provide training for the employees because of budget limitations. Budget allocation for training is mainly assigned for main operational jobs such as aircrew training, cabin crew training and for operation and commercial jobs such as technical training and it disregards management training. Therefore, the employees have to learn by doing and it needs much more time in mastering the skill than that of in training. This practice is not fair to the employees; on the one hand employees are required to achieve their targets (performance management) but on the other hand the employer does not provide them with the necessary skills. Besides training, career system in MNA is also not clear. Rotation and promotion are based on a vacant position and initiative from the superior. MNA has to design its career system and training system and integrates them with its business strategy if MNA wants to apply integrated HRM.

### **3. 2. 3. Management (Corporate Culture, Communication, Industrial Relations)**

#### **A. Corporate Culture**

MNA's effort to develop its own Corporate Culture started since 1999. Budiarto Subroto, MNA's CEO 1995-1999 found the necessity of Corporate Culture implementation in the company and he instructed GM Public Relations to develop MNA's Corporate Culture. The project was led by Public Relation Division and it involved several GMs and Managers. With assistance from a consultant, the Corporate Culture Team began to formulate corporate values' by distributing questionnaires, performing Focus Group Discussion, and so on. The team has formulated a slogan "Ready to serve" and has formulated MNA' values as "Know-Want-Able". But unfortunately, before the Corporate Culture has been launched and socialized among employees, in 1999, Budiarto was replaced by the next CEO, Wahyu Hidayat. The Corporate Culture Project then stopped as the next BOD did not find it important to implement Corporate Culture. The Corporate Culture team was then dismissed and the Public Relations Division was merged into Corporate Affairs Division.

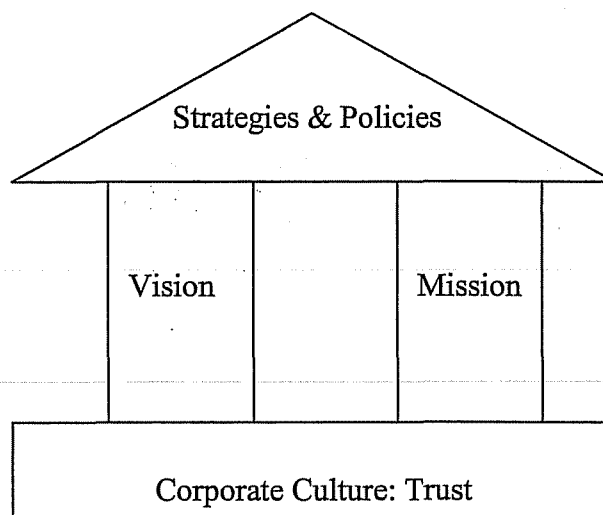
In May 2002, the leadership transferred to Hotasi Nababan. Hotasi assigned Corporate Affairs division, Human Resource Management division and Aviation Safety

division to formulate MNA's Corporate Culture. They were required to formulate MNA's Corporate within 3 weeks without consultant assistance. They did not have time to do the kind of research like the previous Corporate Culture team, so they decided to use the previous Corporate Culture team's research result as a template. The new Corporate Culture team consisted of representatives of each directorate. The team used sub-culture portrait from each division and invited all layers of managers to confirm and discuss the sub-culture portrait. The discussions then enriched and improved Corporate Culture concept and from the discussions it was found that there was lack of "TRUST" within the company. It is necessary to improve the condition and the discussions then developed into how to develop new MNA's culture with "Trust". In July 2002, Corporate Culture team reported the formulation to BOD and GMs.

In October 2002, MNA launched the new Corporate Culture 'Trust'. Corporate culture is perceived to offer a key to the achievement of a common set of values and beliefs, flexibility and commitment (Storey, 2001).

The corporate culture is intended to become a foundation for the company's strategies and policies, while company's vision and mission intended to become pillars for the company's strategies and policies (Merpati, 2002). See Figure 3.3.

**Figure 3.3 MNA's Corporate Culture**



'Trust' is achieved by changing employees attitudes, paradigm and interaction behaviors. Firstly, changing employees attitudes to value honesty, to think and to act positively, be open, and to take decision with responsibility. Secondly, changing employees' paradigms by respecting each other competences and potential. Thirdly,



changing employees' interaction behaviors by being consistent and committed to every agreement, open-minded and cooperative. Hopefully, the corporate culture is going to create a conducive and supportive working environment and to develop respectfulness among Merpati employees.

Corporate culture is then institutionalized in the company's regulation. It was instructed that every internal memo has to state line "Value Trust" and in every meeting the chair of the meeting has to read nine values of "Trust" and has to greet "Trust" before and after conducting a meeting. The Corporate culture's socialization process was conducted by corporate culture team and line managers. The team was assigned to conduct socialization in MNA's Head Office and branches in formal meetings. Almost 40% of the total employees attended the socialization of corporate culture. Besides formal meeting, the taskforce also distributed corporate culture books and distributing emails.

Corporate culture team faced some difficulties in the socialization process:

1. Inconsistency in implementing company's regulation about Corporate Culture
2. Responsibility to socialize corporate culture program lied only with the Corporate Culture team. It needs sponsorship from management to socialize Corporate Culture.
3. One of socialization method is to provide instructors from SBU Merpati Training Center for corporate culture socialization. The instructors are members of the corporate culture team who can socialize the program regularly. People who are involved in the socialization process had a conflict with their direct supervisors who were not very pleased that their subordinates involve in the socialization process because they have to do their regular works.

From the evaluation of corporate culture socialization, it was found that there should be a bigger role by management to support the corporate culture program by joining the socialization process. Leaders should become the key levers that drive the change. Otherwise corporate culture implementation is going to be only rhetoric and forgotten in several months.

## **B. Communication**

Direct communication with employees is most fundamental in the HRM method. Management has made some reforms in communication. This is influenced greatly by the

management style of the new CEO who comes from private sector. He optimized the use of emails and conferences. Before his leadership, coordination and communication were slow, bureaucratic and lack of trust. Every communication and coordination was done by sending mails even though it was only for correspondences within one division. If there was a big issue that relates to districts, Head office invited representatives from Regions and Districts. Under Hotasi management, General Managers and District Managers gather to discuss management problems by telephone conferences every Monday morning and each issue has to be reported and has a solution in the next week.

Management also exercises communication to all employee levels. Almost once a month, management convenes a meeting of all employees in a big aula to have discussions about company problems and gives briefing about company conditions. The management even instructs Public Relation Unit to distribute the gathering video to MNA branches to make sure there is direct communication from management to employees. Management also urges the employees to send them emails if they have a problem in the workplace or if they want to make a contribution to solve the company problem. Line managers and supervisors are required to conduct team briefing once a week to inform team progress in doing jobs.

### **C. Industrial Relations**

The collapse of the New Order Regime in 1997 has changed the social and political condition in Indonesia. KORPRI, the largest Indonesia's Trade Unions which its members mostly come from Indonesian civil servants, was affiliated with GOLKAR. GOLKAR was the largest political party in the New Order Regime. KORPRI had become the political machine for the New Order Regime to win Indonesian General Elections. After the collapse of the New Order Regime, GOLKAR became an unpopular political party in Indonesia and KORPRI's trade union activities have been inactive since then. This has made some rooms for other MNA's trade unions and MNA's professional organization bodies to become more active in MNA. A new trade union, Sekar, was established, and some MNA's professional organization bodies had changed their status into trade union based on professional occupation (e.g. APM, FKAK).

Currently (2005), these are MNA's trade unions:

1. Sekar Merpati / Merpati Trade Union
2. Asosiasi Penerbang Merpati (APM) / Merpati Pilots Association

3. Forum Komunikasi Awak Kabin (FKAK) / Cabin Crews' Communication Forum
4. Forum Komunikasi Teknik (FKT) / Technicians' Communication Forum
5. Forum Pegawai Merpati (FPM) / Merpati Employees Forum

The trade unions about which this paper going to discuss are Sekar and FKT, the two largest trade unions in MNA. Sekar is a trade union whose members come from all MNA's directorates and FKT is a trade union whose members come only from engineering directorate employees. See Annex E - Sekar and FKT's profile.

The most influential trade union in Merpati is Sekar because its total member is exceeding 50% of MNA's employees. Based on Indonesia's Labor Regulations, a trade union that has more than 50% of the total employees as member has the right to represent employees for Perjanjian Kerja Bersama / PKB (Employment Collective Agreement). Recently, on 29 August 2005, Sekar has made Employment Collective Agreement (e.g. PKB) with MNA's management. The PKB consists of agreement on employees' working and employment conditions, employees' welfare (such as family allowance, bonus and incentive, facility, leave), working hours, retirement and employee dismissal. The most important agreement for employees is the Dismissal Agreement. Since MNA has unstable business condition and it has a plan to downsize the organization, the unavoidable consequence will be employees' dismissal. To protect the employees, Sekar, has proposed a retrenchment package that is much more beneficial than the minimum employee's dismissal allowance standard in Indonesia's Labor Regulation. PKB also touches the area of Human Resource Management Strategies in general, e.g. Human Resource Planning, Promotion and Rotation, Personal Grade, Human Resource Development, Education and Training.

In this chapter, some preparations in HRM area have been discussed, namely restructuring of the workforce, restructuring of the human resource system and management. The paper uses this discussion in developing the analysis in the next chapter.



## **CHAPTER IV**

### **RESPONSES TO THE INTRODUCTION OF HRM**

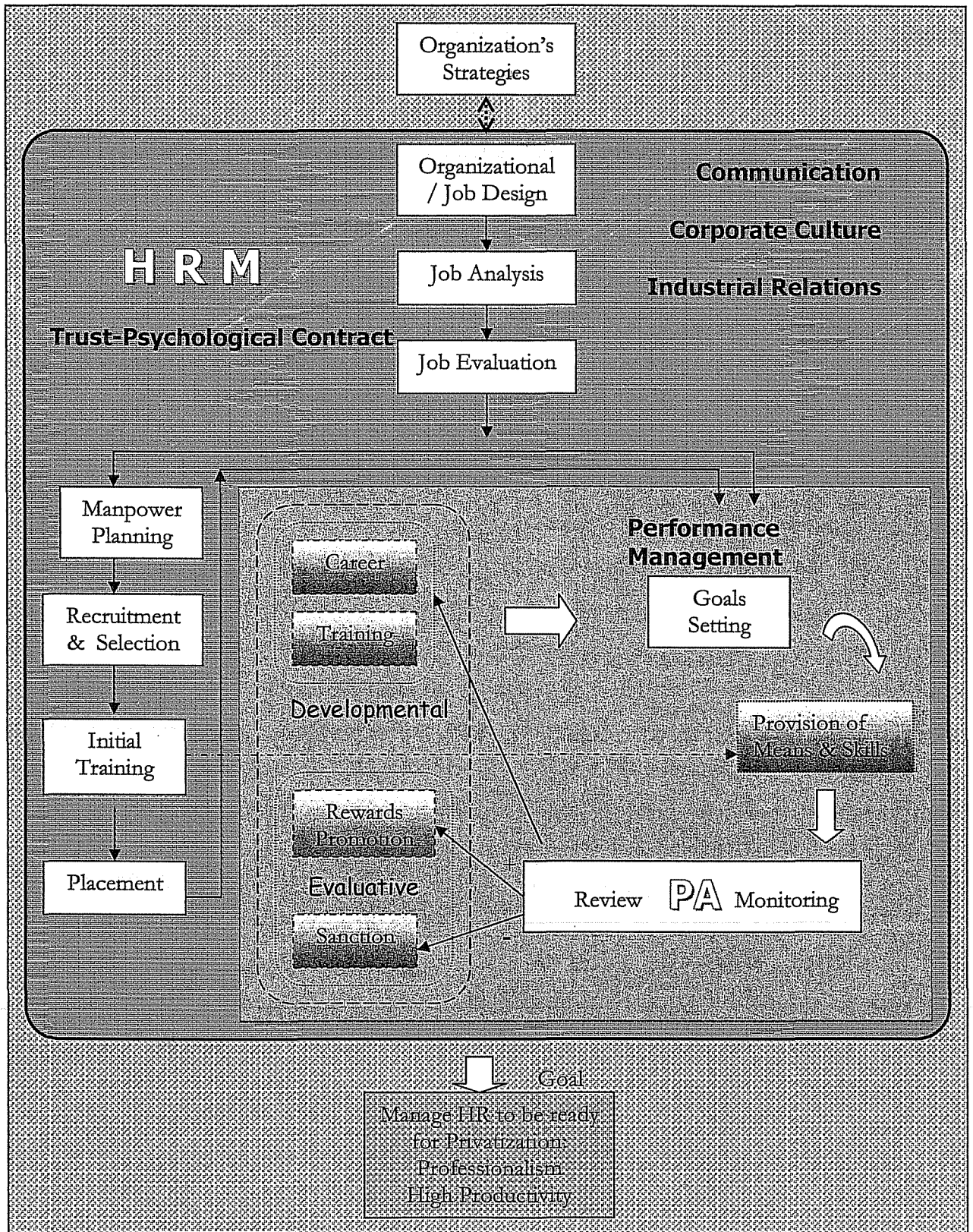
Chapter IV uses the theoretical framework of chapter II and discussions on MNA's HRM practices in chapter III in order to evaluate the responses of the stakeholders, which are employees (see Annex F. Employee Questionnaire), management, and trade unions. This chapter analyzes what the effects of HRM strategies and practices are in the privatization processes.

#### **4.1 MNA's HRM Model**

The goal of MNA's HRM is to manage the human resource to become professional and productive by implementing HRM strategies. Figure 4.1 MNA's HRM Model serves as a framework in the analysis of HRM strategies and practices.

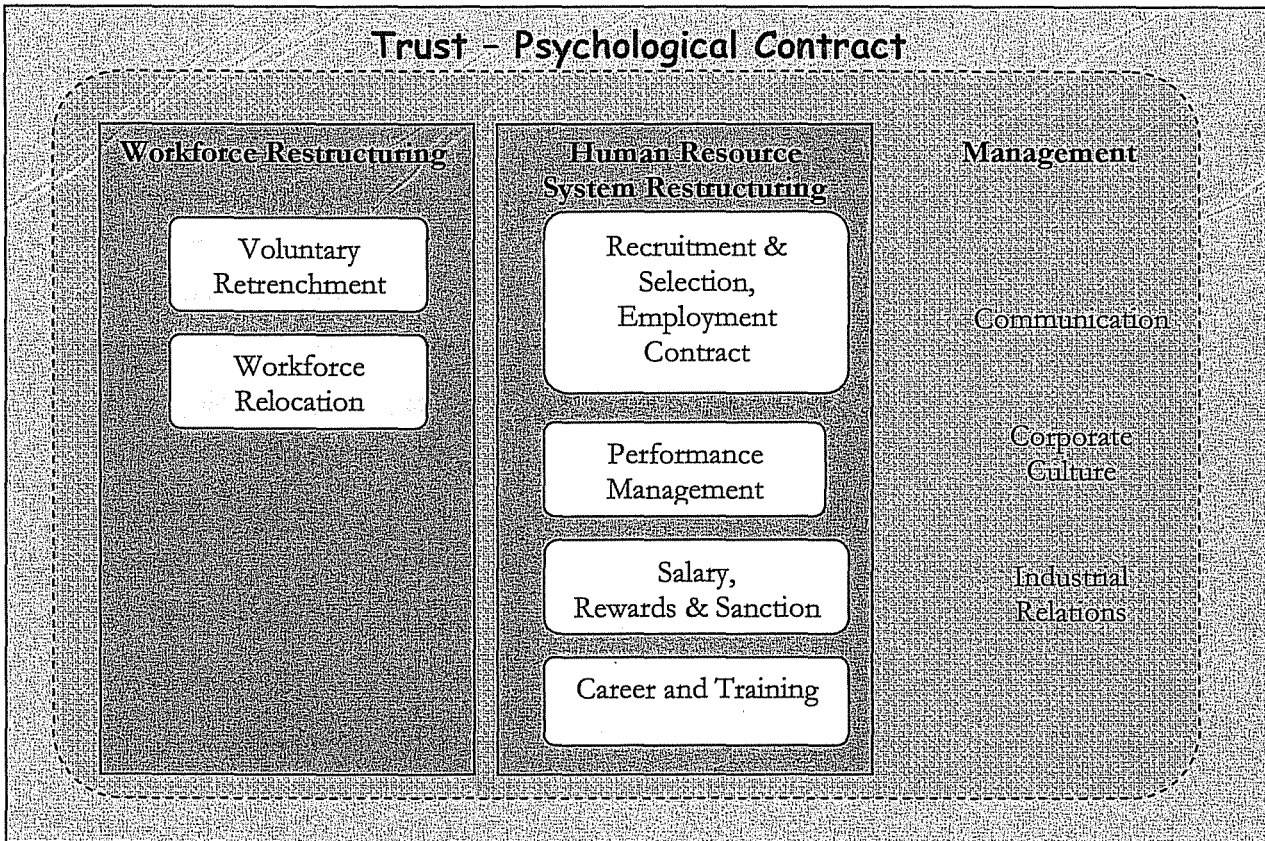
MNA has been applying HRM since 1997. It began with the introduction of a grading system which is a tool to assess the value of a job compare to other jobs. Based on the organizational or job design, job analysis and job evaluation were carried out to build foundation for other HR systems. Manpower planning is conducted to fulfill MNA's HR requirements followed by recruitment & selection, initial training and placement for successful applicants. Every four months, employees are assessed by using Performance Appraisal (PA). PA is one of the processes in Performance Management (PM) which consists of target setting, monitoring, reviewing, and assessing processes. The PA results are used to evaluate employees by giving rewards or sanction (evaluative). PA result also determines decisions in employees' development through Human Resource Development (HRD)/ training and career (developmental). These HR strategies are supported by communication, corporate culture and industrial relation. From this model, there are some programs that have not been put into practice, namely, reward and sanction that are related to performance and training.

Figure 4.1 MNA's Human Resource Management Model



This paper tries to do a preliminary analysis in order to examine the implementation and to examine the stakeholders' responses to the practices of MNA's HRM Preparation for Privatization as described in Figure 4.2. The preparation is divided into three general sections: workforce restructuring, human resource system restructuring and management.

**Figure 4.2 MNA's HRM Preparation for Privatization**



#### 4.2 Workforce Restructuring

Goals of workforce restructuring are to reduce overstaffing, achieve an ideal workforce composition, increase efficiency, lower overheads and bureaucracy, have faster and smoother decision-making and overall to increase productivity levels. Hence, whether it has reached its goals and what were the stakeholders' responses is a point discussion in this section (see Annex F. Employee Questionnaire).

#### 4.2.1 Voluntary Retrenchment

Management states that Voluntary Career Changed Program (VCCP) goal has been to increase company productivity by win-win relationship with employees. Management claimed that after VCCP, there is an increase of company productivity by 24.6%. The process has ran relatively smooth without any employees and trade unions' resistances and relatively successful in reducing low productive employees, even though it faced some constraints, namely, late compensation payment, promised business advisory services was not delivered, failed to target administrative employees, and some high performers left the company.

The respondents were asked whether they ever had considered participating in VCCP since it benefited employees. There is almost equal share in perception (disagree=33.3%; neutral=28.1% and agree=38.6%). Looking at age category, the percentage of employees who did not participate increases in the older categories (see Table 4.1). It seems that the older employees who did not join the last VCCP did so for some good reasons. For example they believed in 2003 that MNA's condition would become better in the near future or they felt committed to work at MNA and so forth.

The next question is whether they are going to join another VCCP in the near future. I analyzed this question by linking it with previous question. Generally, there is an increase that the employees responded positively to another VCCP program (44.7% of the employees). But based on age category, it was found that within age 46-55 there is an increase percentage of employees from 16.7% to 41.7% that they are going to join another VCCP in the future.

**Table 4.1 VCCP Age Category – A Comparative View**

Age Category	Considered joining			Willing to join		
	Disagree	Neutral	Agree	Disagree	Neutral	Agree
25-35	20.9%	34.9%	44.2%	4.7%	41.9%	53.5%
35-45	39.0%	22.0%	39.0%	18.6%	42.4%	39.0%
46-55	50.0%	33.3%	16.7%	41.7%	16.7%	41.7%
Total	33.3%	28.1%	38.6%	15.8%	39.5%	44.7%



The changes might be because of: (1) An indication that MNA will downsize with priority employees aged 40 year above with new budget<sup>1</sup>; (2) In August 2005, there was an agreement between trade union and management (employment collective agreement/PKB) that offers generous retrenchment allowance for employees (better than the last VCCP); (3) Pessimism of employees aged 46-55 on MNA's performance for the last two years; (4) They question their ability to stay with MNA since after VCCP, management applies harder employment relation. Management put pressure on employees to contribute more for the same reward when facing on increasingly uncertain future.

Looking at the education category, the percentage of employees who were considered in the higher education categories increased (see Table 4.2). There is an increase of 30% with a master's degree to join VCCP. It might be that they are most employable everywhere, and seeing the more appropriate retrenchment allowances, they are also pessimistic with MNA's performance, and they would like to pursue another career in other company.

**Table 4.2 VCCP Education Category – A Comparative View**

Education	Considered joining			Willing to join		
	Disagree	Neutral	Agree	Disagree	Neutral	Agree
Senior High School	54.5%	18.2%	27.3%	36.4%	31.8%	31.8%
Diploma	21.1%	26.3%	52.6%	15.8%	47.4%	36.8%
Bachelor	30.2%	31.7%	38.1%	11.1%	41.3%	47.6%
Master	30.0%	30.0%	40.0%	.0%	30.0%	70.0%

Employees mostly disagree on the proposition that states, management selected the right people to be included in the VCCP. Some employees comment that the company should not let the good performers sign up for VCCP and leave the company. They said there should be a clear mechanism to prevent it from happening.

Despite the results of downsizing and employee retrenchment with the intention is to increase productivity, a number of studies have shown the performance of downsizing firms give negative outcomes to those who stay behind and who are expected to work and contribute at higher levels in a climate that does not guarantee security or long-term

<sup>1</sup> Merpati Corporate Communication, August 2005

employment prospects (Doherty and Horsted, 1995; Sparrow, 1996; Noer)<sup>2</sup>. Even though MNA management claimed that after VCCP, there is an increase of company productivity of 24.6%. The survivors experienced low motivation, decreasing commitment since management expect higher contribution, commitment, innovation while in a climate that does not guarantee long term employment security. They have experienced violation of the psychological contract. Working at MNA becomes more difficult for them, as a result, they prefer to accept the new retrenchment scheme if there is a VCCP offering in the near future.

#### **4.2.2 Workforce Relocation**

Employee relocation is mostly related to flexibility, the freedom of employers to expand or contract their workforce as they wish (Treu, 1992). Flexibility facilitates MNA's responsiveness and adaptation in changing business strategies, IT implementation, and organizational restructuring. The drawback of flexibility is primarily reduced job security for employees (Maso, 2004).

However, the survey shows that employees do not see relocation as reducing job security. Employees agree that relocation gives them new career opportunities (72%). Some interesting facts are found from cross tabulation. Employees who are younger or have shorter service years, with Senior High School background and a position as staff most likely see relocation as offering a new career opportunity than others. This is because in the case of younger age employees, the transaction costs involved in changing jobs is lower than in older age. The other reason is also because staff in MNA does not have many career choices like highly educated employees. Different from officer and managerial positions, staff rotation happens if there is a vacant position, which rarely happens.

The survey shows that employees are willing to be relocated if the company wants them to change (76.4% agree). Even though the transfer policy and procedures are not clear (60.5% agree), there is not much resistance to employee relocation since the character of MNA employees is obedient and loyal (Suryanti et al., 2004). There is not much difference if the analysis was based on gender (male agree=75.5% and female agree=80%). Female employees are willing to be relocated even though they usually are not as mobile as male employees for family responsibility, cultural influences, and so on.

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<sup>2</sup> Cited from Sahdev, et al., (1999)

Relocation is supported by employees and trade unions even though there are some problems in MNA which are:

(i) Career system at MNA is not well planned. The survey shows that, many people have complained that they have been staying in the same position for more than 5 years. Therefore, many employees are interested in relocation to develop their skills in different areas.

(ii) There is no strategic planning for employee relocation. MNA's relocation policy is not clearly translated into objectives and it needs support from middle management to build a strong coalition team at the top to translate policy into business objectives.

(iii) Performance management system was not fully implemented. Therefore, there is an inability to distinguish between good performer and non performer.

(iv) There is lack of support from middle management to relocate their subordinates (44.7% agree). Management is not firm enough to transfer employees.

(v) MNA has limitations in budget transfer allowance for the transferred employees. Hence, rather than transfer one employee to another district, they prefer to contract local employees.

MNA has been exerting flexibility through workforce relocation as a result of changing business strategies, technology and organization structure. Despite many weaknesses of the relocation practice, it was not perceived by employees as a threat to their job security but as a new career opportunity.

### **4.3 Human Resource Management System Restructuring**

#### **4.3.1 Recruitment, Selection and Employment Contract**

Research indicates that selectivity in staffing is positively related to firm performance (Becker & Huselid, 1992). Employees are hired via sophisticated selection procedures designed to screen out all but the very best potential employees. According to our survey, 70.1% of the employees agree that the recruitment process is efficient, objective and fair. But there is an indication that even though MNA has a professional selection process which uses variability of selection instruments, open invitation for internal recruitment, and so forth, employees and trade union (FKT) are still worried about nepotism that often happened in the past selection process. This explains why 38.5% of the employees are dissatisfied with

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MNA policies in recruitment, 26.3% of the employees are neutral, 34.2% are satisfied (see Annex F. Employee Questionnaire).

The ideal ratio for every aircraft is approximately 50-70 employees, meanwhile MNA has ratio for every aircraft is 115 employees. Therefore MNA has strategies of zero employment growth, temporary contract, and outsourcing to enable it to concentrate more on core business activities, reduce labor cost; increase productivity and enhance job security for core employees. The employees' responses to these policies are as follows:

Almost 75% of the employees agree with the company strategy on zero employment growth for external recruitment. The employees understand that MNA still has an excessive number of employees. Sekar comments that even though it agrees on zero employment growth policy, MNA needs to recruit externally to maintain regeneration as long as the process is done based on manpower planning.

More than 75% of employees agree with the company's strategy of outsourcing for security, canteen, cleaning services and transportation services. This strategy gives MNA more flexibility in managing labor and organization cost. Employees' responses about temporary contract strategy are not very significant, 43.9% of the employees disagree, 4.4% are neutral and 51.7% agree. The reason behind this is since MNA has a different policy for each type of employees (core and periphery), and it depends on every organization's function. Temporary contract employees are usually hired for the front line (ticket desk, reservation desk, check-in desk, and so on) which requires a representative appearance. This strategy is quite effective since it rejuvenates MNA's front liner work force while the company is not having external recruitment policy at this temporary moment. An HRM strategy that differentiates between core and periphery workers is implemented. The core employees (permanent employees) have better facilities and have better job security than the contract employees. By hiring temporary contract employees, MNA will have more flexibility in planning and developing its human resources.

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#### **4.3.2 Performance Management (PM)**

The use of performance appraisals and linking such appraisals and compensation has also been consistently connected with increased firm profitability (Huselid, 1995). Performance Management (PM) is fundamental in HRM. It allows for differentiation of pay

based on performance rather than pay based on seniority. PM can improve efficiency and effectiveness by integrating business strategies in employees' targets to achieve organizational objectives. Therefore, MNA needs to perform PM if it wants to change from SOE to private ownership and to build organizational competitiveness.

Employees were asked whether unit and individual objectives are linked to the overall objectives of the organization. There is no significant difference for employee response (see Table 4.3 question 1). But from cross tabulation between target and directorates category, it was found that the disagreements come from the Main directorate / DZ (75% of DZ) and Commercial directorate / DG (51.4% of DG). While Engineering directorate / DE (60% of DE), Operation directorate (62.5 of DO), Finance & General Affairs Administration / DF (41.9%) agree that unit and individual objectives are linked to the overall objectives of the organization. Therefore, DZ and DG have to enhance their communications within each directorate, so that the employees can be aware of the objectives and the business plan within the directorates.

**Table 4.3 Performance Management - Workers' Responses**

No	Performance Management	Disagree (%)	Neutral (%)	Agree (%)
1	Unit and individual objectives are linked to the overall objectives of the organization	43	21.9	35.1
2	I am clear about the standards of performance I am expected to achieve	34.2	19.3	46.5
3	I find the performance appraisal is easy to use and to understand	64	21.1	14.9
4	Performance appraisal is a good tool to recognize employees' contribution to the company	32.5	7.9	59.6
5	The Performance appraisal system is objective and fair	69.3	19.3	11.4
6	My last performance appraisal accurately reflected my performance	60.5	24.6	14.9
7	Performance appraisal helps me to improve my performance	38.1	14.2	47.8
8	There is lack of acceptance among employees to apply current performance appraisal	9.6	24.6	65.8
9	There is lack of support from management to apply current performance appraisal	17.5	28.9	53.5
10	Overall I am satisfied with the current performance appraisal	68.4	23.7	7.9

There is also insignificant difference about clarity of performance standards that they are expected to achieve. Some employees comment that MNA has to design clearer Key Performance Indicators for all level of employees. It is most likely the current performance appraisal is not easy to use and to understand. The current system consists of two kinds of forms: one for staff and one for managerial and officers. Even though the staff form is simpler since it only lists daily activities, a good number of staff thinks it is troublesome (52%). Managerial staff and officers also think their form is not easy to use and to understand (77% of officers and 44% of managers). The disagreement mostly comes from officers. This is because an officer is a specialist whose functioning is based on a project without a clear job role like a managerial position do. They are not directly linked to unit targets like managers do but they are required to perform strategic activities and introduce innovation. This makes it difficult to measure individual performance in filling in their form.

It is more likely that employees agree that PA is a good tool to recognize employees' contribution. The awareness of the benefits of PM is getting higher as the level of position increases. Most comment that the goal of PA introduction is good but there should be an improvement in system to make it more objective and an improvement in indicators. It is supported by the fact that most employee disagree the PA system is objective and fair and disagree that the last PA accurately reflected their performances. The question of whether PA helps them to improve their performance yielded inconclusive results. Most employees agree that there is lack of acceptance among employees to apply the current PA, and there is also lack of support from management to apply it. Finally, employees were asked whether they are satisfied with the current PA. The responses are satisfied 7.9%, neutral 23.7% and not satisfied 68.4%.

The survey shows that most employees know the goal and benefits of applying PA. They know that PA is useful to recognize employees' contribution to the company and it would help to improve company and employees' performances. But they ask for improvement in PA system, designing Key Performance Indicator for all levels of employees so that the PA assessment can be more objective and fair, consistent system with control and monitoring, linked with reward and punishment, and to improve PA to become easier, clearer and more objective. Corporate culture is also needed to facilitate the process. See table 4.4 for MNA's PM key problem areas and recommendation.

**Table 4.4 MNA's Performance Management System – Key Problem Areas**

	Key Problem Areas at MNA	Recommendation
1	<p>Sponsorship:</p> <ol style="list-style-type: none"> <li>1. BOD: lack of sponsorship and commitment to perform PM</li> <li>2. Managers: line managers do not involve in PM promotion</li> <li>3. HRM Division plays single role in promoting PM, lack of communication</li> </ol>	<ol style="list-style-type: none"> <li>1. Gain commitment from BOD</li> <li>2. To define clearly the roles and responsibilities in relation to on-going maintenance, development and evaluation</li> <li>3. Communication</li> </ol>
2	<p>Culture:</p> <ol style="list-style-type: none"> <li>1. Employees find the system is not easy to use and understand</li> <li>2. Lack of employees acceptance</li> </ol>	<ol style="list-style-type: none"> <li>1. System redesign – simplify, use suitable values</li> <li>2. Increase communication and training</li> </ol>
3	<p>Integration:</p> <ol style="list-style-type: none"> <li>1. Lack of integration with the overall organizational objectives of the organization (DZ, DG)</li> <li>2. Not linked to performance reward initiatives</li> <li>3. Linked to discipline system but it did not put into practice</li> <li>4. Linked to promotion, planning and training</li> </ol>	<ol style="list-style-type: none"> <li>1. Communication</li> <li>2. Apply performance reward initiatives</li> <li>3. Enforce discipline</li> </ol>
4	<p>Measure:</p> <ol style="list-style-type: none"> <li>1. Employees were informed on vision, mission of the company but they were not clear on the future plans and business results of the company</li> <li>2. Employees do not have up to date job description</li> </ol>	<ol style="list-style-type: none"> <li>1. Communication</li> <li>2. Job design to clarify roles, responsibilities</li> </ol>
5	<p>Non supportive policies and strategies:</p> <ol style="list-style-type: none"> <li>1. Ineffective policies-discipline</li> <li>2. Limited budget to support training</li> <li>3. Inadequate recognition for reward and recognition</li> </ol>	<ol style="list-style-type: none"> <li>1. Managers' performance agreements include full participation in PM processes</li> </ol>
6	<p>Judgment:</p> <ol style="list-style-type: none"> <li>1. Lack of confidence in performance indicators</li> <li>2. Appraisal procedures do not put into practice: 360 degrees</li> <li>3. Appraisers have not been trained well in making judgments, feedback, not objective and unfair</li> </ol>	<ol style="list-style-type: none"> <li>1. Improve KPI system design</li> <li>2. Communication and training for appraiser</li> </ol>

Source: adopted and adapted from Agere & Jorm, 2000:52

Therefore, when employees were asked which HRM practices they would like to see an improvement, the highest percentage is PM (65.79%). In an interview with management, it is said that the top priority of all HR practices is improvement in PM.

Sekar support PM but critically says, "It needs commitment of management during the implementation, e.g. selection of managerial position and officer which are not transparent and not based on performance. It will not be useful if it does not meet Good Corporate Governance requirement during its implementation" (interview data). FKT comments that "FKT was asked by the management to monitor PM system and management will review PM. But from our observation, management did not take our aspiration and tend to act 'the show must go on'" (interview data).

CEO MNA states that PA become a management tool in controlling, directing and improving employee performances and in the end improving company performance. He admits that it still needs improvement in performance indicators and needs times to build employee acceptance and management commitment. GM Human Resource Management says that, "The background and goal of PM introduction is to develop employee motivation and to reward employee contribution. But the goal has not been achieved. The major reasons are it needs commitment and it needs shared goals and understanding on PM and also agreement to the PM system. It also needs objective parameters to measure the employees' performances for each division" (interview data).

Fowler (1990) emphasizes two things that are most fundamental in PM, firstly, it is meant to be owned and driven by line management (and not by the human resources department or one or two directors) and that there is an emphasis on shared corporate goals and values. These two things are not found in MNA.

The PM result is not only an improvement in profitability or the delivery of services, but also in enhancement of employee motivation, satisfaction and identification with the organization (IPM, 1992).<sup>13</sup> Relating PM with incentives is one solution to increase motivation but MNA does not have budget for giving rewards. Therefore, management uses PM for decision on promotion.

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<sup>13</sup> Fletcher & Williams (1996)



### **4.3.3 Salary, Rewards and Sanctions**

Reward management is important to the achievement of the business strategy. It concerns with financial (remuneration) and non-financial (recognition, responsibility) rewards. Employees were asked whether the current pay system has a positive effect on employee productivity and almost half of them disagreed. Forty-five percent of employees disagree that their salary is adequate to their experience and responsibilities, 15% are neutral and 40% agree. From cross tabulation between salary and education categories, the significant difference is that employees with higher education disagree in greater numbers (bachelor degree 58.7%) that their salaries are adequate to experiences and responsibilities whereas low education employees agree (senior high school 54.5%). This response supports the previous finding that the current pay system does not have a positive effect on employee productivity. The salary structure at MNA relates to employee skill, experience, competency and years of service but not to performance. Moreover, differentials between pay ranges are very close between ranges. Ranges are not designed to be wider at more senior levels, thus the differences are not rewarded accordingly. Therefore, MNA has a salary structure which is unfavorable for higher educated employees and high performer which is a challenge for MNA to improve their motivation and to retain them.

The company also lacks rewarding employees for rewards or recognition for good job (65%) and does not give treatment or sanction for under performers (47.4%). MNA does not have the capability to invest in reward strategies because of its deficit budget. Therefore, it is also difficult for MNA to elicit employees' commitment because of its financial constraints in performing HR practices.

The other problem is unfair practice. Sekar demands for transparency in salary, rewards and punishment, e.g. transparency in salary policy to prevent inequality and nepotism in salary policy. FKT comments that there is an unfair practice in rewards and punishments. One officer in Human Resource Planning unit also admits that current salary system has many interventions.

### **4.3.4 Training and Career**

Organizations can improve the quality of current employees by investing comprehensive training and development activities are going to produce beneficial

organizational outcomes. According to Huang (2000), several strategic choices regarding training and development of well performing companies are: provide training and development activities not only for the short term but also on a long term basis, involve line managers involved in training and development activities, and in identifying training and development needs.

The survey found that 62.3% of employees do not agree that they have enough opportunities to attend skills training for improvement. Since MNA has limitation in training budget, training priority was given to main operational employees, such as government mandatory training for pilot and aircrew that is required in order to keep flight license. On the contrary, training for general and administration employees has been neglected. Therefore many employees suggest to increase training budget, to improve training plan and to give equal training opportunity for all employees.

A total 51.8% of the employees agree that they have opportunities to develop their career within the company by rotation or promotion. Percentage of female employees that agree is higher than percentage of male employees (female 65% and male 48.9%), therefore apparently MNA does not have gender discrimination in its career decision. Percentage of senior high school graduates that agree is the highest among other educational background (68.2%). Percentage of managerial position that agrees is the highest among other position background (68%). Officer has the lowest percentage (39.3%) because officers' skills are usually specific and not general; therefore it is difficult to pursue a career in another position. The limitation is career path has not been completed yet. Hence, officers found difficulties in pursuing career than managerial and staff. If MNA wants to increase its productivity in the long term, employees need more training and development opportunities. Therefore, a business plan that is integrated with the training plan and career management is needed, along with effective mechanism for rotation and promotion.

**Table 4.5 Training and Career Opportunities– Gender Category**

Sex	Training Opportunity			Career Opportunity		
	Disagree	Neutral	Agree	Disagree	Neutral	Agree
Male	59.6%	17.0%	23.4%	25.5%	25.5%	48.9%
Female	30.0%	30.0%	40.0%	25.0%	10.0%	65.0%
Total	62.3%	16.7%	21.1%	25.4%	22.8%	51.8%

## 4.4 Management

### 4.4.1 Communication

Sekar was disappointed by communication between management and employees. "Management communicates with employees only if the company has reached bad condition. Therefore, sometimes employees found out what happened in company by reading newspaper, not from management communication" (interview data). Meanwhile FKT complains that the communication is tending to be "one man show".

Direct and two way communications between management and employees is very important in HRM. Management exercises many ways of communication such as bulletin board, employee briefing, newsletter, emails, videos, and conferences and encourages employees to give inputs for company's problems. See Annex F. Employee Questionnaire. Some of the employees agree that MNA's corporate communications are frequent enough (36%). Employees most likely read most of the company's newsletters that they received (67.5%). However, there is lack of communication on HRM practices, such as performance management, training, career, and so on (64.1%). Some of the employees say there is lack of communication on working and employment conditions (41.3%). Over half of the employees say it is not easy to get answers to questions about personnel policies (54.4%). There are 46.5% of the employees who feel well informed on their obligation and rights as employees. There are 42.1% of the employees who do not feel informed about changes that affect them. Until now, the communication about HR policies and practices were done by HRM division. Reflecting on these responses these practices are not effective. Line managers need to be closely involved as both deliverers and drivers of the HR policies.

Communication goal in HRM is performed in order to keep the individual informed about a wide range of issues as part of the effort to win the 'heart and minds' of employees and promote their commitment to organizational objectives. It seems that some of the employees are well informed on the vision and the mission of the company (45.6%), but not well informed on the future plans of the company (33.6%), and the company's business results (36%). Respondents to the survey feel that the weaknesses of MNA's communication are, (i) the management does not keep employees informed about the current problems at MNA (37.6%) and, (ii) management does not understand the problems they face in their

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jobs (53.5%). To sum up, in transition condition like preparing for privatization and HRM introduction, there is a need to do more on this two way communication.

#### **4.4.2 Corporate Culture (Trust)**

The background of MNA's corporate culture introduction is to establish corporate values and changing employees attitudes, paradigm and interaction behavior. Firstly, changing employees attitudes to value honesty, to think and to act positively, be open, and to take decision with responsibility. Secondly, changing employees' paradigms by respecting each other competences and potential. Thirdly, changing employees' interaction behaviors by being consistent and committed to every agreement, open-minded and cooperative.

The survey found that over half of the employees agree that Trust is the top priority with MNA (see Annex F). Almost sixty-percent of employees believe that Trust will make MNA a better company. Employees seem to understand that Trust values are needed to improve employees' attitudes. Employee comments that corporate culture is important to change employees' attitudes to become more professional. More than half of the employees agree that they understand most corporate culture values and they take Trust very seriously. But there is no conclusive response that Trust will deliver result (34.4%=disagree, 27.2%=neutral, 36%=agree).

Sekar comments that corporate culture is only lip service. FKT comments that management should become the role model for employees to perform corporate culture. GM WP states that it has not performed well since it needs management commitment.

Management states that, "Corporate culture is important in changing employees' attitudes, but at this moment management does not give high priority for corporate culture since MNA is still in the restructuring period. Let us wait until MNA relatively stable and the system and infrastructure are ready and then we will emphasize on this corporate culture, Trust. Our priorities now are to improve performance management system, reward and sanction and communication" (interview data).

The above statement from management explains the previous finding that even though employees response positively to Trust (they understand the benefits of corporate culture, they understand most corporate culture value and they want to learn it by heart), but there is no conclusive response that Trust will deliver result. Management does not put Trust

in high priority because management realizes that it would not be effective to instill on employees about think and act positive and commitment if at the moment management has to perform strategies that reduce job insecurities and employees welfare (e.g. downsizing, relocation). Moreover, the corporate culture chairman states that management freezes the corporate culture program due to limited budget. Management feels that it is better to spend money in other business strategy than corporate culture campaign.

Is management shortsighted or just being rational? They did not see the importance of culture in shaping employees attitudes and paradigm. The management did not see that corporate culture helps in implementing HR policies such as Performance Management. The employees' acceptances of an appraisal system have strong correlation with beliefs, values and norms that shaped by culture (Harvard, 2001: 37-38). The management also did not see integration between company goals, which is high productivity, to the means in achieving high productivity, which is performance management that supported by corporate culture.

Therefore, after MNA has relatively become stable, it needs some action to underpin the culture, such as support from management to drive the change, re-affirming existing values, operationalizing values through actions, using the values set as headings for performance assessment, reinforcing induction training as part of a continuous development program and the most important point is the integration of corporate culture with other business strategies.

#### **4.4.3 Industrial Relations**

##### ***Analysis of IR and HRM***

Based on a simple framework of IR and HRM by Guest (1995), we can analyze the relationship between industrial relation and HRM for MNA. Along the industrial relation dimension, MNA is considered 'high' since there is a recognized trade union, together with worker representation and the presence of local negotiation. Trade union density at MNA is more than 70%. MNA has institutionalized PKB, a partnership agreement which is a set of mutual commitments between management and Sekar, the largest company trade union. The PKB consists of agreements on employees' working and employment conditions, employees'

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welfare (such as family allowance, bonus and incentive, facility, leave), working hours, retirement and employee dismissal.

Along the HRM dimension, MNA has not been adopting high performance HR practices together with an attempt at strategic integration. Our survey (see Annex F) shows that, there is little evidence that HR activities have been considered progressive. Most employees' answers to the questions on MNA's HR practices were reflecting employee dissatisfaction. For example, 68% of the employees do not agree that they are satisfied with the current performance appraisal. However, trade unions see the introduction of HRM as a good strategy despite of its weaknesses in the implementation. For example, they see performance management as a good program. They support differentiation in payments based on employees' competences and performance as long as it has a clear procedure.

Since in MNA there is little sign of progressive HR practice but a trade union presence and some form of collective activity, MNA has traditional pluralism. This perspective recognizes the existence within the enterprise of various different and conflicting interests. These differences are collaborated to achieve the benefit of all parties. In this view, trade unions and the mechanisms of collective bargaining are necessary for managing the conflicts of interest which exist between employers and employees.

The collaboration between trade union and management is widely supported by employees who are trade union members. The survey shows that more than 80% of the surveyed trade union members agree that the trade union should work closely with the management. They propose that trade union should help management to solve company's problem. This matches the characteristic of Industrial Relation in Indonesia that tends to value harmony, peace and abhors conflict (Ramaswamy, 2000: 215-216).

### ***Trade Union***

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If we classify the union identity and potential union workplace outcomes, MNA's trade unions have a moderate identity. The unions find new independent but collaborative roles at the workplace. (Pegler, 2005). This is supported by interviews with the trade unions. The trade unions admitted that they take position as a partner for management. Sekar, the largest trade union, states that, "Sekar take position as a partner for management. Sekar will help management to solve company's problem, minimally by creating a conducive

atmosphere. Until now, the efforts that Sekar has been doing are to send letter to give suggestion for improvement. Sekar has expectation that it can play an active role in securing company policies that give benefits to employees' welfare and company efforts" (interview data). The same position is also taken by FKT, "FKT take position as a partner for management, but since the MNA condition now is declining, FKT has to take position as opposition, to encourage Good Corporate Governance implementation" (interview data).

Both trade unions are expecting more employee involvement in management decisions but management only gives room for trade unions to participate on policies that are related to employees. CEO MNA comments, "Trade union is a management partner and it can play a role in employment management policies so that trade union can involve employees in achieving company's and employees' goals. Trade union is needed to represents employees voice, which is shareholder for the company" (interview data).

Management is keeping some distance with trade unions because sometimes, trade unions have their own agenda and maintain their adversarial nature. GM WP states, "Ideally, trade union can play a role as shop steward that bridges communication gap between employees and management. Trade union is a management partner. But in reality, it does not work that way since trade union has pride and often takes opposite position to get more respect from management and exercises its authority. Therefore, trade union tends to become management opposition and often could not find agreements and has different perception" (interview data).

Employees also support a moderate trade unions attitude (see Table 4.6). The survey shows that, most employees agree that trade union should work closely with management (83.8%) and trade union should help management to solve company's problems (86.5%). The employees also want TU to address issues like cooperation between TU and management to solve company's problem. TU members comment that TU should become a management partner, working hand in hand with management.

Basically, trade unions in MNA have low levels of membership participation. In an interview some trade unions' officials admitted that they rarely came to union meetings even though they are trade unions officials and have obligation to come to the meeting. The reasons are they were busy with their work and did not have time to go to the meetings. Trade unions powers greatly depend on the leaders. If the trade union has a strong leader

and vocal to the management, it is most likely that the trade union can give pressure to the management.

**Table 4.6 Employees Responses to Trade Union**

No	Statement	Disagree	Neutral	Agree
1	My trade union represent my voice	16.2	37.8	45.9
2	My trade union has played a good role in:			
	a. Collective bargaining (salary)	21.6	36.5	41.9
	b. Grievance handling (rewards and punishment)	16.2	33.8	50
	c. Protecting employment	12.2	29.7	58.1
3	Trade union should work closely with management	5.4	10.8	83.8
4	Trade union should help management to solve company's problems	5.4	8.1	86.5
5	Trade unions have good performances in representing workers' voices	12.2	31.1	56.8

The changing situation in these recent years, namely company's financial problem, downsizing, workforce restructuring, HR system restructuring have been decreasing employees motivation. It has reduced their commitment to management and they give their voices to the trade unions and state their distrust to the management. Sekar gave a statement that the union does not trust BOD in February 2005. This action was then followed by four other trade unions in May 2005. Mistrust in management policies and control techniques likely to be reciprocated with low trust employee attitudes and behavior which result in violating the psychological contract.

The survey, found that 45.9% of trade unions members feel that their trade union represent their voices. They feel that their trade unions have played a good role in collective bargaining (41.9%), grievance handling (50%) and protecting employment (58.1%). The performances of trade unions in representing workers' voices are relatively good (56.8%).

#### **4.5 Trust – Psychological Contract**

Even though MNA has been applying contemporary HR strategies, it did not come out as a progressive HR, firm with high performance or high commitment HR practices.



The weaknesses of HRM in MNA are caused by lack of foundation of trust – psychological contract. Psychological contract is made between the employee and the employer with regard to what will be given by each and what each will take from employer-employee relationship. The employees and employer fail to meet each other expectations. In facing MNA privatization, management expects higher commitment and productivity by employees. Whereas the employees expect better working and employment condition and HR practices.

The employees survey (see Table 4.7) shows that there is little trust between employees and management. More than 70% of the employees said that they doubt whether management tells them the truth. From cross tabulation with employee position regarding this question, it was found that, 76 % of those in managerial position doubt the truth about what management tell them, while within officer it is 72.2% and within staff it is 64%. Thus the higher the position, the lower is the trust to the management.

**Table 4.7 Trust Employer - Employees**

No	Statement	Disagree	Neutral	Agree
1	I sometimes doubt the truth about what management tells me	7	21.1	71.9
	Managerial	4	20	76
	Officer	9.8	18	72.2
	Staff	4	32	64
2	I trust the decisions taken by the management of the company	43.8	36.8	19.3
	Managerial	40	44	16
	Officer	49.1	32.8	18.1
	Staff	32	44	24

It is more likely that employees also do not trust the decisions taken by the management of the company (43.8%). From the cross tabs within position, the officer has the highest percentage of distrust (49.1%) than other position while staff has the lowest percentage of disagreement about management decisions. Therefore, the model from Watson (2005:142) is not valid to explain the MNA situation. According to Watson those in the higher positions, tend to experience high trust relationship with their superiors.<sup>14</sup>

<sup>14</sup> The high trust which is put in this type of position and the relatively high level of rewards are reciprocated on the part of the employees willingness to comply with organizational requirements on their own initiative 'responsible autonomy' (Friedman, 1977).

Whereas those in the lower class positions are more likely to experience a restricted type of psychological contract and low level of rewards, thus lower trust. Therefore, based on the empirical data in MNA, higher rewards and autonomy which reflected in higher position do not guarantee higher trust in the psychological contract.

### ***Job insecurity and motivation***

Job insecurity occurs with HRM implementation and it increases since MNA is going to privatize the company, which usually relates to downsizing and employee retrenchment. There is no significant difference whether the employees feel stressed in their jobs or not; the similar result happens when employees are asked whether they are afraid to lose their jobs. But from cross tabulation based on education, it seems that employees who have senior high school education background feel more insecure (54.5%) and this also happens to staff employees (52%). These categories feel more insecure because they have low bargaining in the labor market, thus they will find more difficulties in finding new jobs compared to the other employees who have higher education and higher position in their jobs. The employees were asked whether they are worried that they can not make a career 29.8% disagree, 26.3% are neutral, 43.8% agree. When they were asked whether they are worried about the future of their company, most of the employees are agreed (74.6%). But when they were asked whether they are optimistic that MNA will have good performance in the future, more than half of employees are agreed.

Sekar comments that the employees tend to be ignorant to conditions of MNA. Even though some indicators have shown that MNA debts is getting bigger, the fleet becomes smaller since many aircrafts need major maintenance and there is a declined in employees' welfare still employees do not have the sense of emergency of MNA condition since they are still getting monthly payment. Sekar states that to change the employees' perception, there should be like a shock therapy, e.g cutting of salary so that it will change employees' paradigm, thus it will change employees' attitudes. Their problem ownership then would be increased, and they will start to pay attention to company performance and in the end they play an active role and directly control policy implementation and business performances.

Some employees comment that, "What is happening to MNA now had already happened several times before. MNA was surviving since it was getting some helps from government as a SOE. Therefore, no need to worry very much that MNA will face bankruptcy. Government will save us. Besides, even if we face dismissal we will get big retrenchment package" (interview data).

Employees have low sense of crisis. They do not feel that they have job insecurities even though they realize that the company has uncertain future. Therefore, there is a need to do more on communication and corporate culture to change employees' attitudes and paradigm.

This chapter has discussed each HRM strategy and its practice. The next chapter discusses the summary of the findings and how the HRM practices help in preparing MNA for privatization.



## CHAPTER V

### CONCLUSION AND LESSONS LEARNED

The objective of the research was to analyze the preparation for privatization in the area of Human Resource Management (HRM) in PT Merpati Nusantara Airlines (MNA). HRM is an important factor in the privatization process because firstly, the privatization goal is to increase productivity and efficiency. Some evidence has proved a positive relation between HRM and organizational performance (Wood 1999:367-413; Huselid 1995). HRM has a strategic role in organizational competitiveness since it integrates HR strategies into business strategies to achieve organizational goals (Storey, 2001:7). Secondly, HRM introduction is needed to change public sector employee management to private sector employee management. Thirdly, human resources are the most important asset of organization and they need to be strategically managed. The goal of HRM introduction in MNA is to prepare employees to become professionals who are ready for privatization. Therefore the main research question of the study is to assess whether HRM can help in preparing MNA for privatization.

MNA has done these HRM innovations in order to prepare for privatization. These are summary of the findings:

#### A. Workforce restructuring

##### 1. Voluntary retrenchment

According to management the VCCP was quite successful in increasing company productivity by 24.6%. The process ran relatively smooth without any employees and trade unions' resistances and relatively successful in reducing low productive employees. It met with some constraints: it did not meet the target of reducing the number of administrative employees, late compensation payments, promised business advisory services undelivered, some high performer employees left the company, the process relatively ran smoothly without any employees and trade unions resistances. It was also found that some survivors have changed their commitment and attitudes since the management applies harder employment management while at the same time they are facing on increasingly uncertain future.

##### 2. Workforce relocation

Flexibility facilitates MNA's responsiveness and adaptation in changing business strategies, IT implementation, and organizational restructuring. Those factors have

changed MNA to become more competitive, effective and efficient and have given positive effects on employees' attitudes and skills. Relocation has facilitated employees who did not get access to training and it helped in advancing their career. Employees and trade unions do not see relocation as reducing job security; they see it as new career opportunities. The weaknesses come from lack of procedures, lack of HR systems that support relocation and lack of management support.

## B. Human Resource Management System restructuring

### 1. Recruitment, selection and employment contract

MNA has been applying zero employment growth, temporary contract and outsourcing that enable MNA to concentrate more on core business activities; to reduce employment cost. These strategies are supported by employees and trade unions since they understand that MNA has overstaffing and it needs slimmer organization.

### 2. Performance Management (PM)

PM, in theory, is a factor that directly connects HR strategy and firm performances. But, in MNA, it becomes the most controversial HR strategy that directly affects employees because it is linked to employees' salaries and promotion system. Most of the employees understand the importance of PM and its benefits. But there are some key problems, namely, lack of sponsorship and acceptance, culture mismatch, lack of integration with organizational objectives and HR processes, inadequate supportive policies (incentive, promotion, discipline), lack of objectivity in measurement, judgment problem (unclear standard performance indicator), and lack of monitoring. According to our survey employees and trade unions are the ones most inclined not support its implementation. Therefore, there should be a major improvement in PM otherwise it will violate psychological contract between employer and employees, destruct employees' commitment, decrease employee satisfaction and motivation. However, despite of its negative effects, PM implementation has begun to introduce an atmosphere of accountability, integration of business strategy with individual goal, and performance recognition in MNA.

### 3. Salary and rewards and sanctions

The current pay system does not have a positive effect on employee productivity. It has been improving by taking into account individual competencies but it needs improvement since it is unfavorable for higher educated and high performer employees. Moreover, because of its low financial stability, MNA could not apply financial reward management. Employees and trade unions respond that the system needs improvement

in transparency and law enforcement from management in salary, rewards and sanctions practices.

#### 4. Rotation, promotion and training

MNA has been facing difficulties to provide equal training for the employees because of limitations on the training budget. Those affected by change (e.g. relocation, technological change) have been offered training. Those not immediately affected were left out. This practice is not fair to the employees, on the one hand employees are required to achieve their targets (performance management which is still needs major improvement) but on the other hand MNA does not provide the employees with the necessary skills.

The career system in MNA is not clear, especially for specialists. MNA's business plan does not integrate with the training plan and career management. Rotation and promotion are only based on vacancies and initiative from the superior, and not on a pre-conceived plan.

### C. Management

#### 1. Communication.

Management has made some reforms in communication. This is influenced greatly by the CEO's management style who comes from private sector (non-bureaucratic style). But it is not enough. In a transitory period in which the company is preparing for privatization and HRM introduction, there is a need to do more on this two way communications which should also involving line managers. Employees need more information on HRM practices and changes in the company that affect them.

#### 2. Corporate culture

Trust values have the attitudes, paradigm and behavior which are needed to form employees' professionalism. Employees understand most corporate culture values and believe that it will make MNA a better company. The problems are it did not integrate with other business and HR strategies, inconsistency, lack of management sponsorship and lack of socialization. Management did not see the importance of Trust in preparing employees for privatization and supporting other business strategies. For example, they did not see the contribution of corporate culture to the performance management implementation that corporate culture values help in creating the atmospheres of accountability in MNA. Therefore, Trust tends to be only rhetoric and forgotten in several months and while trade unions said Trust is only a lip service.

### 3. Industrial Relation

MNA has traditional pluralism and moderate identities. MNA's trade unions are supportive to HRM strategies. This statement is strongly supported by trade unionist employees with responded that the collaboration between trade unions and management is needed to solve company's problem. Trade unions expect the management to involve them in management policies but management keeps them at arms length since trade unions sometimes have their own agenda and maintain their adversarial nature.

HRM strategies have positive and negative effects to MNA's privatization processes.

The positive effects are:

1. It has improved MNA's business performance

Voluntary retrenchment, workforce restructuring have direct effects in supporting changes in business strategies, technology and organization which have made the businesses become more effective and efficient. PM has also introduced the integration of business strategy with individual goal in achieving business performance.

2. It has introduced the atmosphere of professionalism and performance recognition

Although it takes time to change employees' attitudes, but performance management, corporate culture and communication strategies have introduced MNA's employees to the atmosphere of accountability, consistency and commitment to their work.

3. It has enhanced employees' skills

The introduction of technological changes forced MNA to adopt a training policy aimed at those who were affected by the changes. Indeed, those employee affected by relocation decisions are also given necessary training. This has opened new opportunities for those affected to advance their careers.

The negative effects are:

The weaknesses in HR practices discussed above has caused negative effects such as decreasing in employees' satisfaction, motivation and commitment, violating employees' trust and psychological contract. In the end, the employees will not have sense of crisis and ownership to the company's problem.

To sum up, even though MNA has been applying contemporary HR strategies but it did not achieve high performance or high commitment HR practices. The weaknesses in MNA's HRM practices are caused by the management failed to address



the bottom line of HRM. It lacks of foundation of trust – psychological contract. Therefore, management should not give priorities only to HRM's 'tangible' strategies, such as workforce restructuring and HRM system restructuring. Those strategies need support of communication, corporate culture and industrial relation.

As the research becomes a HRM preliminary analysis of the newly applied HRM in MNA, it can be concluded that HRM has not been showed a significant effect in preparing MNA for privatization. However, it more likely can help MNA in preparing privatization if several conditions are met:

1. Strategic integration that linked MNA's strategies and strategic human resource management. It needs vertical integration and horizontal integration. In MNA's HRM, such an integration is not practiced. In vertical integration, the human resource remains essentially unstrategic and unreformed. The HRM in MNA has been piecemeal rather than strategic. It needs an integrated and holistic approach towards HRM implementation. It needs direction and awareness of vision and mission of the company and business strategies. In horizontal integration, HRM is fragmented since different strategies are not done consistently and not integrated.
2. Commitment of management. To drive a change, it needs commitment of leaders or management that has actively pushed reforms. It needs a drive from top management and not only single role of HRM division. Line managers should have bigger role to play in staff management and they should be empowered with necessary skills and knowledge in HRM.
3. Performance management and related-payment performance. Setting targets and incentive payments is the major exercise which inserts pressures on employees in the context of a competitive environment. The absence of the program is probably the largest single circumstance which leads to poor performance in going on privatized-public enterprises. Prior to performance related payment, there should be an improvement made on performance management indicators in order to make the system accountable.
4. Salary structures. Besides pay related performance implementation, it also needs improvement in pay structures that is expected to create a fair and competitive salary for higher educated employees in order to retain qualified employees.
5. Financial stability. MNA has a low level of financial stability that makes it difficult to make a strategy formulation in human resource planning since it is related to relatively

uncertain revenues and cost. For example, MNA needs to develop its employees' skills through training. On the contrary, MNA as the employer has to keep the labor cost low (low cost career) and limit its investment in training and incentives. Therefore MNA needs to allocate the financial support from government in building Human Resource capacity to achieve long term and short term goals.

6. Strengthening HRM system in training and career. MNA has not been completed in designing HR strategies in training and career. Therefore, the integrated and holistic approach towards HRM implementation can not be performed.

7. Involving MNA's stakeholders in the HRM practices, such as involving trade union representatives in the introduction of corporate culture. Hence, it will build employees ownership and acceptance on HR practices.

8. To see psychological contract – trust as the foundation of HRM. In the transition to privatization situation, management should focus more on the implicit mutual expectations between the employee and the employer function. Management should not only see the “tangible” HRM but also “intangible” HRM by exercising communication, corporate culture and industrial relation.

## ANNEX A - OVERVIEW OF PT MERPATI NUSANTARA AIRLINES

Merpati Nusantara Airlines (MNA) was established on 6 September 1962. Its goals were to become a state owned airline that bridges Indonesian remote areas in Borneo Island and to promote Indonesian economy for the benefit of the people. With only 6 aircrafts and 17 employees, MNA developed feeder line operation of PT Garuda Indonesia Airways (GIA), national flight career, in Borneo Island. After a few months, MNA expanded its routes not only within Borneo Island but also to Java, Sumatra and Papua islands and in 1966 MNA became a commercial state owned airline. In 1970, MNA developed trunk and semi-trunk lines and also initiated regional routes to Malaysia, Singapore and Australia. After a few years MNA has developed its routes and in 1972, MNA operated 37 aircraft and flied 97 cities.

In 1978, the Indonesian Government decided to transfer Government shares in MNA to GIA. MNA served remote flights, regional flights, transmigration flights and domestic and international charter flights. In 1997, the demand for international flights urged for another MNA development. The government decided to detach MNA from its holding company and built an independent limited company under the Transportation Ministry.

MNA now is the second largest state owned enterprise airline in Indonesia, serving domestic routes in the eastern part of Indonesia and some regional routes. The shareholders of this company are Indonesian Government (93.20%) and PT Garuda Indonesia Airways (6.8%), the largest airline in Indonesia. Besides its core business, MNA also has 2 Strategic Business Unit (SBU), SBU Merpati Maintenance Facilities (SBU MMF) and SBU Merpati Training Center (SBU MTC).

MNA's vision: To Become the Most Preferred Airlines in Indonesia

MNA's missions:

1. Safety and On Time Performance
2. Excellent service
3. Company's value growth
4. Employee welfare
5. Centre of excellence
6. Trusted partner

## ANNEX B - METHODOLOGY IN COLLECTING DATA

The paper uses primary data and secondary data. The researcher had been involved as a Human Resource Planner and as a Change Management Team member in MNA from December 2001 to May 2004, therefore some of the information came from the researcher's experiences.

### A. Primary data

#### a. Questionnaires about Privatization and HRM implementation to:

1. Employees (non trade unionist and trade unionist)
2. Trade Unions

The questionnaires explore how HRM innovation was perceived by workers and trade unions. The paper discusses every HRM strategy and practice that related to privatization and its responses.

#### b. Semi-structured interviews about Privatization and HRM implementation to:

1. Management (Board of Directors)
2. Human Resource Management Division

The interview explores the goal of introducing HRM in privatization process.

### B. Secondary data

Literature studies: Company Business Plan, Company HRM strategies, Company HRM policies.

### *Employees Surveys*

A survey was held to explore how HRM innovation was perceived by workers and trade unions. The survey was conducted from 31 August to 14 September 2005. In August 2005, MNA has 3279 employees (population). To get a confidence level of 95% and a confidence interval of 10%, this study needs minimum sample size of 93 employees.<sup>1</sup> The researcher was helped by 4 research assistants in distributing emails and hard copy of questionnaires (two research assistants were collecting questionnaires at

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<sup>1</sup> Confidence level 95% and confidence interval 10% means the researcher can be 95% certain with confidence interval 10%. Suppose that from the survey 75% employees agree that they are satisfied with HRM strategies. It means that there is a 95% confidence level to the interval 75% plus or minus 10%. That is, from the survey it was found very likely that the employees responses that they are satisfied with HRM strategies between 65% and 85% of the total responses (www.surveysystem.com).

MNA's Head Office and two research assistants were collecting questionnaires at MNA's branches). The questionnaires were sent and distributed to (+/-) 300 employees.

There are 123 people who were responded to the survey. From that amount, yielding 114 fully completed survey. All respondents gave their opinion to every HRM policy and practices in 5 likert scale: strongly disagree, disagree, neutral, agree, and strongly agree.

The respondents' backgrounds for the categories age, sex and service year conform to general pattern of MNA's workforce. The respondents' background for highest education level, position and directorate categories, however does not conform to general pattern of MNA's workforce. Therefore, there are limitations in generalization of perceived HRM impacts on workers (see employees' data and respondents' background).

### *Management Survey*

In addition to the broad survey, semi-structured interview about Privatization and HRM implementation, were held with management as follows:

1. CEO PT Merpati Nusantara Airlines, Mr. Hotasi Nababan
2. GM Human Resource and General Affairs Division (WP), Mr. Suyadi

### *Trade Unions Surveys*

MNA has five trade unions, which are:

1. Sekar Merpati / Merpati Trade Union
2. Asosiasi Penerbang Merpati (APM) / Merpati Pilots Association
3. Forum Komunikasi Awak Kabin (FKAK) / Cabin Crews' Communication Forum
4. Forum Komunikasi Teknik (FKT) / Technicians' Communication Forum
5. Forum Pegawai Merpati (FPM) / Merpati Employees Forum

Interviews were done by sending emails to the chairmen of trade unions. Only Sekar and FKT responded to the interview. Chairmen of APM and FKAK did not responded to the emails due to limitation in communication. FPM is now in the middle of elections for a new leadership, therefore the researcher decided not to interview any representative from FPM. Sekar and FKT are the two largest trade unions in MNA. Sekar is a trade union whose members come from all MNA's directorates and FKT is a trade union whose members come only from engineering directorate. The most

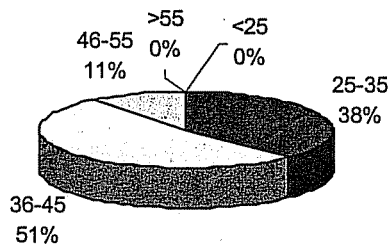
influential trade union in Merpati is Sekar because its total membership exceeds 50% of MNA's employees. Based on Indonesia's Labor Regulation, a company trade union which has organized more than 50% of the total employees has the right to represent employees for Perjanjian Kerja Bersama / PKB (Employment Collective Agreement). The second largest trade union is FKT which its total member is 30% of MNA's employees. Based on those reasons, I have decided that Sekar and FKT are most likely representing MNA's trade unions voice.

## Employees' Data

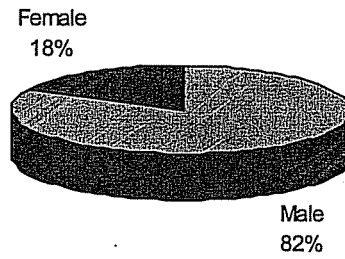
KORPS	2000 (Before VCCP)	%	2005 (After VCCP)	%
PILOT	368	11.1	368	11.1
FLIGHT ATT.	294	8.9	294	8.9
TECHNICIAN	1023	30.9	1023	30.9
FOO	217	6.6	217	6.6
MATERIAL	0	-	0	-
COMMERCIAL.	0	-	0	-
SALES	346	10.5	346	10.5
STATION	395	11.9	395	11.9
FINANCE	234	7.1	234	7.1
ADMINIST.	429	13.0	429	13.0
	<b>3306</b>	<b>100</b>	<b>3306</b>	<b>100</b>

## Respondent Background

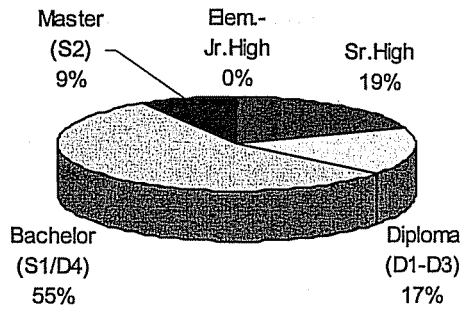
**Age**



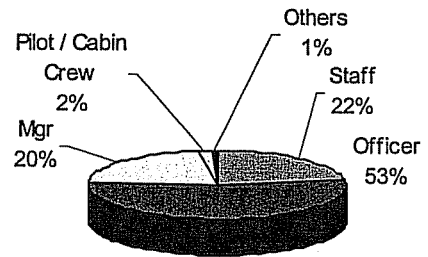
**Sex**



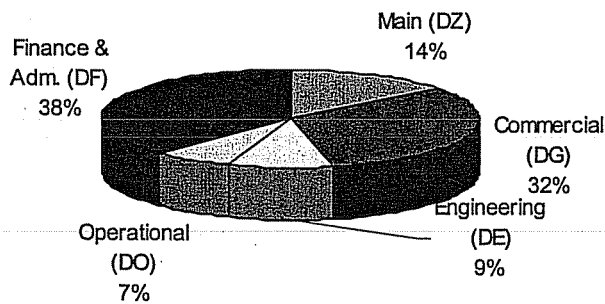
**Highest Education**



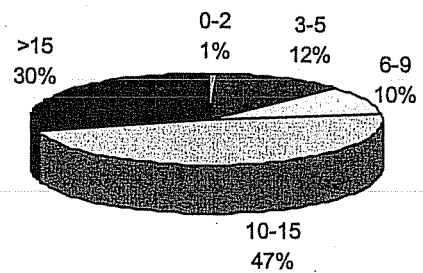
**Position**



**Directorate**



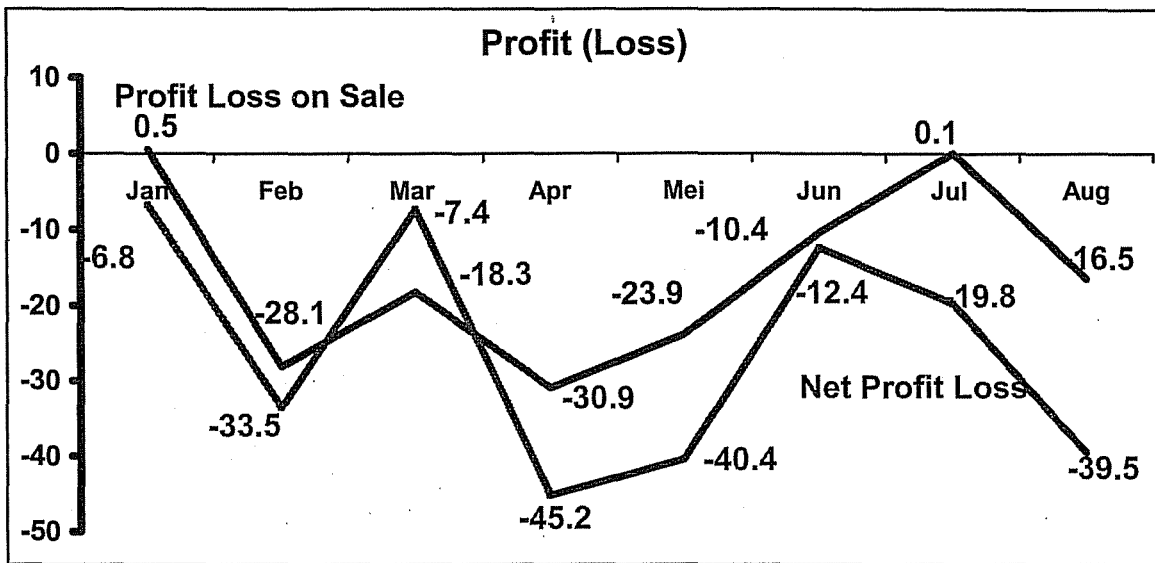
**Service Year**



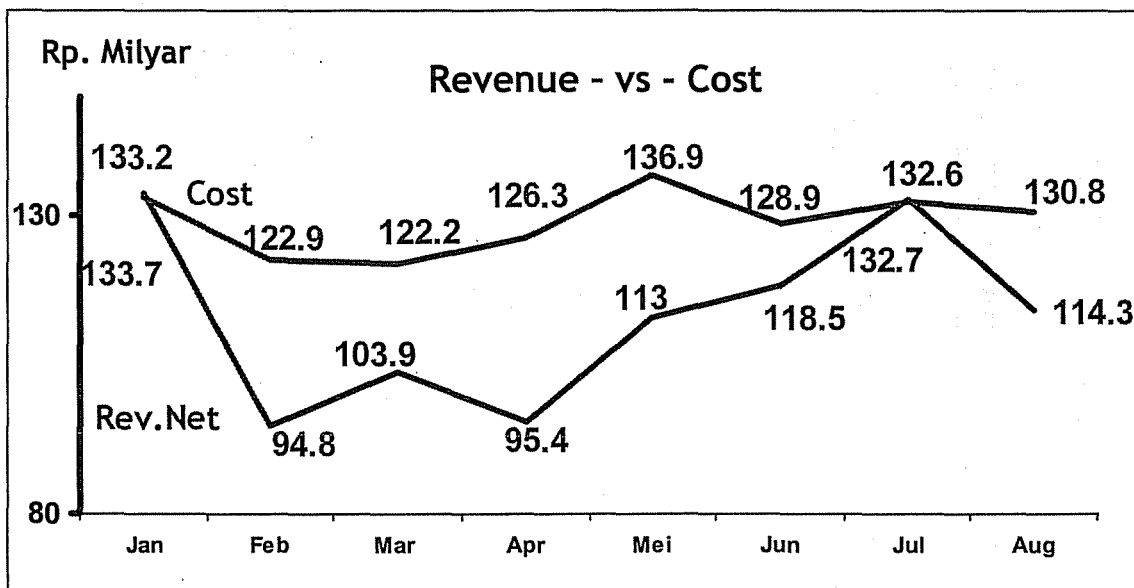


## Annex C - Financial Performances

### Profit (Loss) January – August 2005

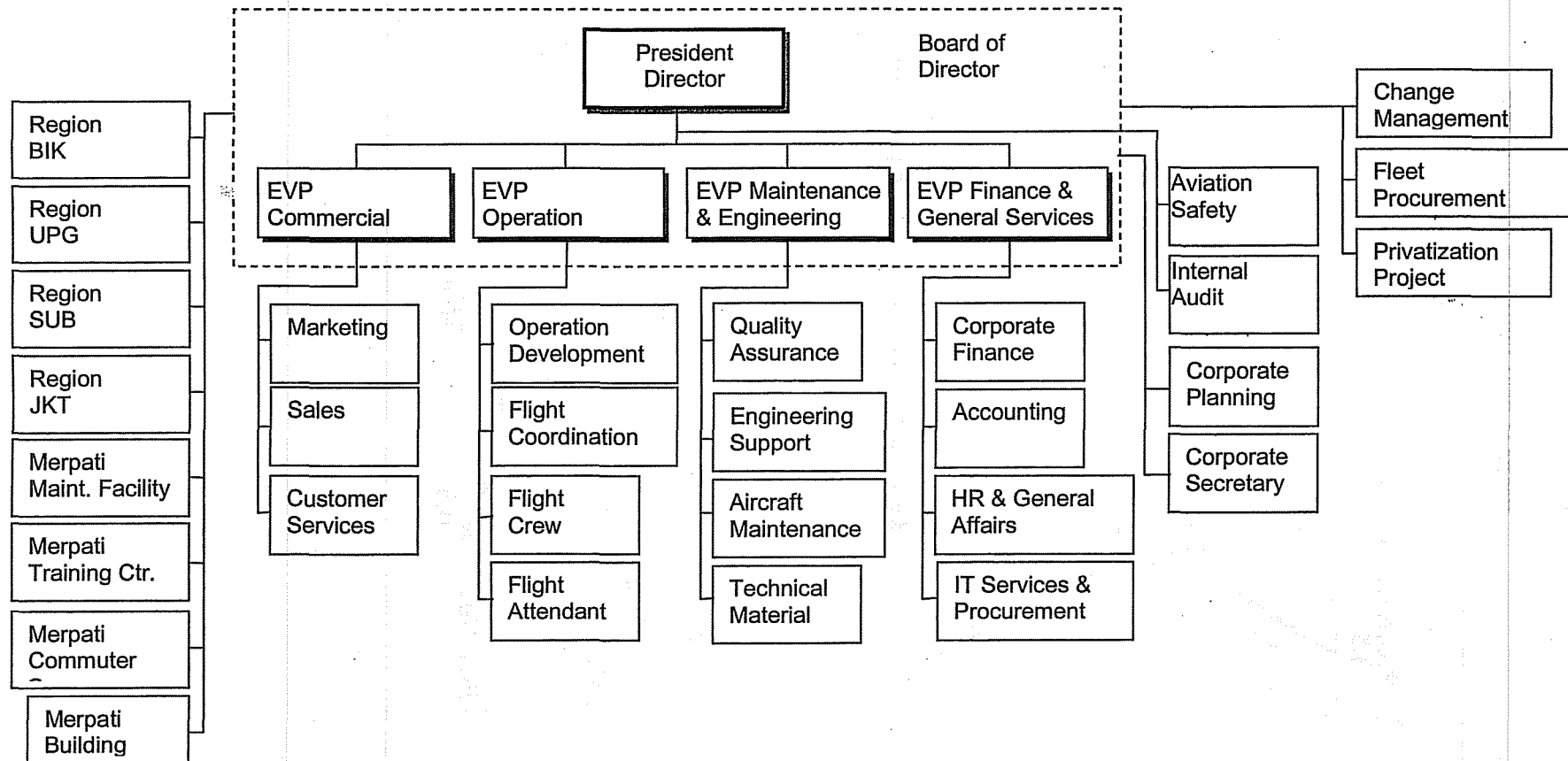


### Revenue vs Cost January – August 2005

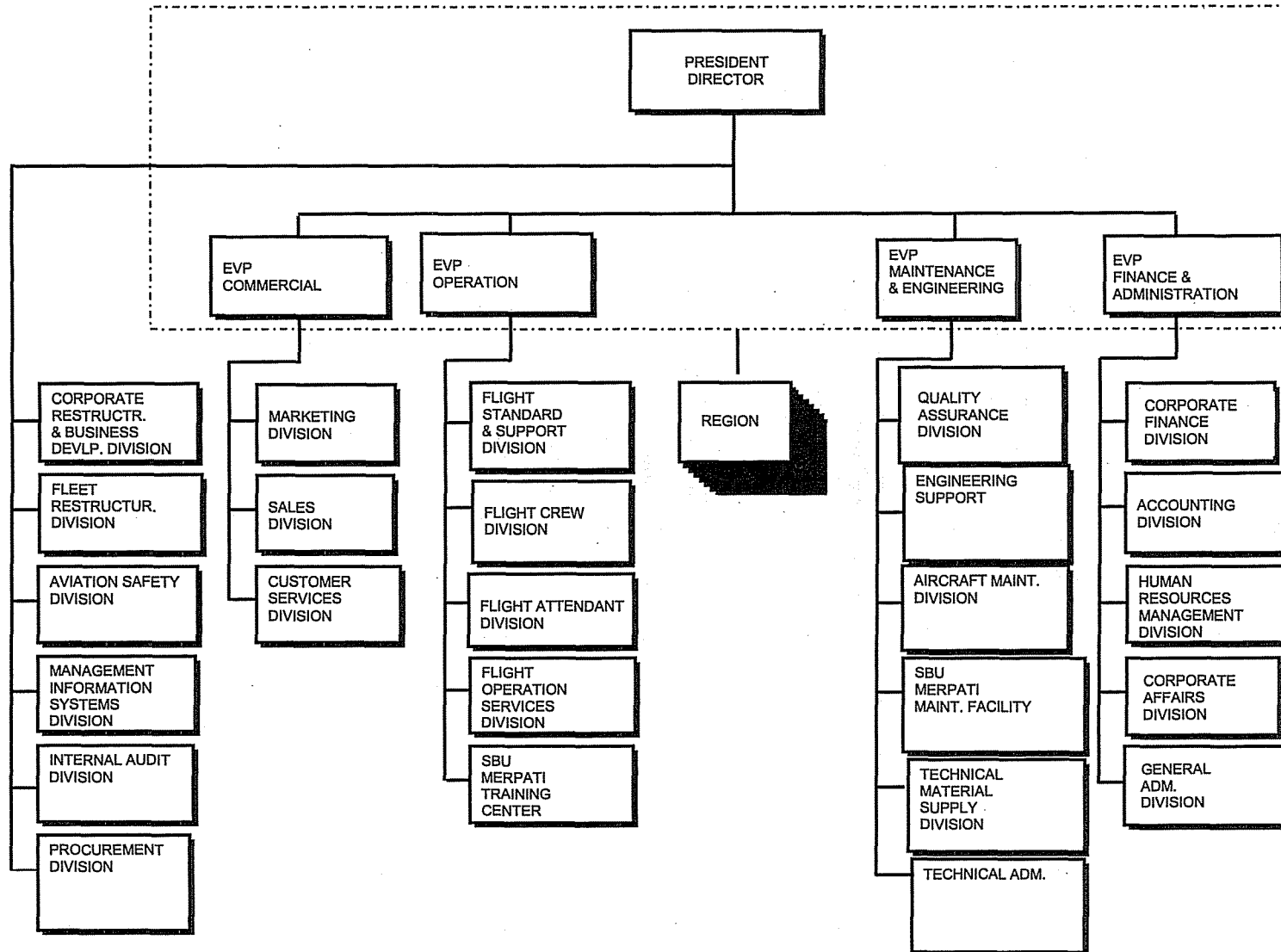


## ANNEX D - ORGANIZATION STRUCTURE

### ORGANIZATION STRUCTURE PT. MERPATI NUSANTARA AIRLINES



## ORGANIZATION STRUCTURE PT MERPATI NUSANTARA AIRLINES (BEFORE)



## ANNEX E - TRADE UNIONS' PROFILES

	Sekar	FKT
Established	14 July 1999	30 Dec 1998
Total officials	41 in head committee agency and 5 in judicial agency	14
Total Member	1671	1040
Member	Merpati's employees	Engineering directorate employees
Interest	Employees' welfare	Increase member's welfare and employee professionalism
Vision	Trade Union which is admired by its members and being respected by the company	Establishing FKT function and existence in communicating voice of Engineering Directorate employees; to unite all engineering directorate employees.
Mission	Achieving employees welfare by achieving company welfare	To enhance moral courage, consistency and capability of FKT in representing members' interest and voices; to struggle for employees' welfare
Union meeting/yr	12 plenary meetings, 12 department meetings, 4 committee agency and judiciary agency meetings	6 meetings
Union – management meeting/yr	Depends on the urgency	3 meetings

## ANNEX F – EMPLOYEE QUESTIONNAIRE

Dear .....

The purpose of this survey is to obtain your opinion on Human Resource Management (HRM) implementation in PT Merpati Nusantara Airlines. Your views will provide a valuable input to my research about HRM programs which are currently going on in this company. There is no right or wrong for the answer and you can **freely** fill the questionnaire based on your current condition. Your answers to the questionnaire will be kept **confidential** (NO individual will be identified). The questionnaire will take about 10 minutes to complete. I would be very thankful if you could complete the questionnaire before 14 September 2005.

Best regards,

Lien Karlina Gandini

Institute of Social Studies, Den Haag (e-mail : [lienwp@gmail.com](mailto:lienwp@gmail.com) or [hre0407@iss.nl](mailto:hre0407@iss.nl))

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### Respondent's Background Information

1. Age: a. up to 24=0% b. 25 –35=37.7% c. 36 – 45=51.8% d. 46- 55=10.5% e. > 56 =10.5%
2. Sex: a. Male=82.5% b. Female=17.5%
3. Highest education level:
  - a. Elementary School - Junior High School =0%
  - b. Senior High School = 19.3%
  - c. Diploma (D1 – D3) =16.7%
  - d. Bachelor Degree / S1 – D4 =55.3%
  - e. Master Degree / S2 =8.8%
4. Which of the following best describes your position at PT Merpati?
  - a. Staff = 21.9%
  - b. Officer = 53.5%
  - c. Managerial = 21.9%
  - d. Main operational (pilot / cabin crew) = 1.8%
  - e. Other, please specify = 0.9%
5. Please indicate the directorate in which you are work:
  - a. Main Directorate (DZ) = 14%
  - b. Commercial Directorate (DG) = 46.5%
  - c. Engineering Directorate (DE) = 8.8%
  - d. Operational Directorate (DO) = 7%
  - e. Finance and Administration Directorate (DF) = 37.7%
6. How long have you been working for this company?
  - a. 0-2 years =0.9%
  - b. 3-5 years = 12.3%
  - c. 6-9 years = 9.6%
  - d. 10-15 years = 47.4%
  - e. > 15 years = 29.8%

Employee Survey – HRM Practices PT Merpati Nusantara Airlines

**Section A**

Please indicate your views about the statements below by giving cross mark (X) on column which most closely matches your opinion.

**SD = STRONGLY DISAGREE**

**D = DISAGREE**

**N = NEUTRAL**

**A = AGREE**

**SA = STRONGLY AGREE**

No	Statement	SD	D	N	A	SA
<b>Recruitment</b>						
1	I agree with the current company's recruitment strategy (e.g. zero employment growth and no external recruitment for permanent employees)	7.9	12.3	4.4	36.8	36.8
2	I agree with the temporary contract strategy (e.g. Temporary Vacancy) for external recruitment	12.3	31.6	4.4	34.2	17.5
3	I agree with the outsourcing strategy (e.g. security) for external recruitment	4.4	7.9	7	56.1	24.6
4	The recruitment process is efficient, objective and fair	3.5	12.3	13.2	46.5	24.6
5	Overall, I am satisfied with company policies on recruitment	5.3	34.2	26.3	28.9	5.3
<b>Staffing (Relocation, Retirement)</b>						
6	Relocation give employees new career opportunities	0.9	11.4	15.8	50.9	21.1
7	Managers give support for employees' transfer	3.5	34.2	17.5	36.8	7.9
8	I am willing to be relocated if the company wants me to change	0.9	8.8	14.	51.8	24.6
9	The transfer policy and procedures are clear	22.8	37.7	14	21.1	4.4
10	Management selected the right people to be included in the VCCP program	47.4	28.9	11.4	9.6	2.6
11	VCCP process is objective and fair	21.1	31.6	23.7	22.8	0.9
12	I was considering to follow VCCP program since it benefited employees	6.1	27.2	28.1	35.1	3.5
13	If the company has another VCCP program in the near future I will definitely join in	2.6	13.2	39.5	28.9	15.8
14	Overall, I am satisfied with company policies in staffing (VCCP, workforce reallocation)	14.9	49.1	16.7	17.5	1.8
<b>Organization and Job Design</b>						
15	I am familiar with the organization structure	5.3	14.9	19.3	50	10.5
16	The current organization structure is ideal to enable company to become more competitive	31.6	50.9	7.9	7	2.6
17	The company needs slimmer organization to become more competitive	3.5	5.3	3.5	26.3	61.4
18	I have reasonable workload	7	30.7	22.8	32.5	7
19	My job has enough varieties of tasks and it is not monotonous	6.1	17.5	17.5	47.4	11.4
<b>Training / HRD</b>						
20	I get enough opportunities to attend skills training for improvement of my current function	21.9	40.4	16.7	18.4	2.6
21	I get enough opportunities to attend skills training for improvement of my opportunities to a better function	22.8	45.6	7.9	21.1	2.6

Employee Survey – HRM Practices PT Merpati Nusantara Airlines

No	Statement	SD	D	N	A	SA
22	Overall, I am satisfied with the company's policies on training	21.1	44.7	17.5	14.9	1.8
	<b>Career</b>					
23	I would like to change my career within the company	1.8	7.9	27.2	45.6	17.5
24	I have opportunities to develop my career within the company (rotation, promotion)	7.9	17.5	22.8	47.4	4.4
25	Overall, I am satisfied with the company's policies on career	18.4	39.5	26.6	14	1.8
	<b>Communication</b>					
26	The company provided all the necessary information that new employees need about personnel practices (performance management, training, career, etc)	32.5	31.6	14	19.3	2.6
27	The company provided all the necessary information that new employees need about working and employment conditions (salary, welfare, benefits and facilities)	21.1	20.2	22.8	34.2	1.8
28	It is easy to get answers to questions about personnel policies	16.7	37.7	24.6	18.4	2.6
29	I read most of the Company's newsletters that I receive	5.3	14	13.2	53.5	14
30	Merpati's corporate communications are frequent enough	6.1	27.2	30.7	34.2	1.8
31	I generally feel informed about changes that affect me	7	35.1	26.3	28.1	3.5
32	I am well informed on the vision and mission of the company	3.5	28.1	22.8	39.5	6.1
33	I am well informed on the future plans of the company	5.3	32.7	28.3	29.2	4.4
34	I am well informed on the business results of the company	5.3	36.8	21.9	32.5	3.5
35	The management keeps employees informed about the current problems within this company	8.8	28.9	27.2	30.7	4.4
36	I am well informed on my obligation and rights as an employee	5.3	21.1	27.2	44.7	1.8
37	I am satisfied with the communication and interaction among employees	6.1	21.9	36.8	35.1	0
38	Management understands the problems we face on our jobs	12.3	41.2	21.9	22.8	1.8
	<b>Performance Management</b>					
39	Unit and individual objectives are linked to the overall objectives of the organization	14	28.9	21.9	28.1	7
40	I am clear about the standards of performance I am expected to achieve	10.5	23.7	19.3	43	3.5
41	I find the performance appraisal is easy to use and to understand	27.2	36.8	21.1	14.9	0
42	Performance appraisal is a good tool to recognize employees' contribution to the company	14.9	17.5	7.9	49.1	10.5
43	The Performance appraisal system is objective and fair	30.7	38.6	19.3	10.5	0.9
44	My last performance appraisal accurately reflected my performance	18.4	42.1	24.6	13.2	1.8
45	Performance appraisal helps me to improve my performance	12.4	25.7	14.2	40.7	7.1
46	There is lack of acceptance among employees to apply current performance appraisal	3.5	6.1	24.6	43.9	21.9
47	There is lack of support from management to apply current performance appraisal	5.3	12.3	28.9	38.6	14.9
48	Overall I am satisfied with the current performance appraisal	23.7	44.7	23.7	7	0.9

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No	Statement	SD	D	N	A	SA
	<b>Salary, Rewards and Sanctions</b>					
49	The current pay system has a positive effect on employee productivity	18.4	30.7	18.4	28.9	3.5
50	My pay is according to my experience and responsibilities	14	32.5	22.8	27.2	3.5
51	As far as I know our salary is equal to the salaries of comparable organizations	9.6	43.9	25.4	19.3	1.8
52	The company gives rewards or recognition if I do a good job (promotion, salary increase, etc.)	19.3	43	14	21.9	1.8
53	The company gives treatment or sanction if I do my job under performed (training, sanction)	11.4	36	18.4	32.5	1.8
	<b>Corporate Culture</b>					
54	Trust is the top priority with Merpati	5.3	18.4	20.2	43.9	12.3
55	I understand most corporate culture values	.9	16.7	30.7	45.6	6.1
56	I believe that Trust will make Merpati a better company	0.9	10.5	21.9	50	16.7
57	I personally take Trust very seriously	0.9	13.2	35.1	38.6	12.3
58	I believe that Trust will deliver result	3.5	28.9	31.6	27.2	8.8
	<b>Management Style</b>					
59	I sometimes doubt the truth about what management tells me	0.9	6.1	21.1	54.4	17.5
60	Managers involve in delivering HR practices (performance management, training, corporate culture)	6.1	2.2	26.3	44.7	2.6
61	The relationship between management and employees is good	7	16.7	37.7	35.1	3.5
62	I trust the decisions taken by the management of the company	7	36.8	36.8	17.5	1.8
	<b>Job insecurity</b>					
63	I frequently feel stress in my job	0.9	21.9	40.4	28.9	7.9
64	I am worried that I will loose my job	6.1	29.8	36	22.8	5.3
65	I am worried that I can not make a career	1.8	28.1	26.3	34.2	9.6
66	I am worried about the future of my company	1.8	6.1	17.5	40.4	34.2
	<b>Motivation and Commitment</b>					
67	I am optimistic that this company will have good performance in the future	3.5	21.1	24.6	41.2	9.6
68	Overall I am satisfied with my position at this company	10.5	21.1	28.9	36.8	2.6
69	Overall I am satisfied working for this company	7.9	17.5	28.9	36.8	8.8

1. Are you a trade union member?

a. Yes =61.4

Please indicate your position in trade union: .....

**Please continue to Section B**

b. No=38.6

**If No, please continue to Section C**



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**Section B**

2. How long have you been a member of trade union?

- a. <1 year =6.8%
- b. 1 – 2 years=20.3%
- c. 3 – 5 years=35.1%
- d. 6 – 10 years=23%
- e. > 10 years=14.9%

Please indicate your views about the statements below by giving cross mark (X) on column which most closely matches your opinion.

**SD = STRONGLY DISAGREE**

**D = DISAGREE**

**N = NEUTRAL**

**A = AGREE**

**SA = STRONGLY AGREE**

No	Statement	SD	D	N	A	SA
1	My trade union represent my voice	4.1	12.2	37.8	35.1	10.8
2	My trade union has played a good role in:					
	a. Collective bargaining (salary)	2.7	18.9	36.5	37.8	4.1
	b. Grievance handling (rewards and punishment)	2.7	13.5	33.8	45.9	4.1
	c. Protecting employment	2.7	9.5	29.7	52.7	5.4
3	Trade union should work closely with management	1.4	4.1	10.8	64.9	18.9
4	Trade union should help management to solve company's problems	1.4	4.1	8.1	62.2	24.3
5	Trade unions have good performances in representing workers voices	4.1	8.1	31.1	47.3	9.5

4. The benefits that I gained by joining trade union member:

**Benefits TU**

No	Benefits	Frequency	Valid Percent
1	Protects employees' rights	22	34.4
2	Represents employees' voices	16	25.0
3	Workers' solidarity	4	6.3
4	Bridge management and employees on information, etc	5	7.8
5	No benefits	15	23.4
6	Others	2	3.1
7	Total	64	100.0
	Total	114	

5. I want my trade union to address these issues:

**TU Issues**

No	Issues	Frequency	Valid Percent
1	TU cooperate with management	13	17.8
2	TU inform company's condition	8	11.0
3	Protecting employees' rights	10	13.7
4	Rewards & punishments	5	6.8
5	Performance management	5	6.8
6	Employees' welfare	6	8.2
7	Career plan	8	11.0
8	Salary & allowance	5	6.8
9	Management – employee relation	6	8.2
10	Retirement allowance	7	9.6
	Total	73	100.0

**Section C**

From HRM practices listed below, please select 3 items by ticking on which you would like to see improvement. Please also indicate what kind of improvements. Do not select more than 3.

1. Performance management=65.79%
2. Retirement program (incl. VCCP)= 54.39%
3. Career system= 51.75%
4. Training= 50%
5. Employee relocation= 36.09%
6. Corporate Culture=30.7%
7. Communication=13.16%

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